

# **BELL FX**

# **PRODUCT**

# **DISCLOSURE**

# **STATEMENT.**

Incorporating Schedule of Fees

The information in this Product Disclosure Statement (PDS) does not take into account your personal objectives, financial situation and needs. Before trading in the products referred to in this PDS you should read this PDS and be satisfied that any trading you undertake in relation to those products is appropriate in view of your objectives, financial situation and needs.

We recommend that you consult your financial Dealer or obtain other independent advice before trading in Foreign Exchange and options.

## PURPOSE OF A PDS

This PDS has been prepared by Bell Potter Securities Limited (Bell Potter). This PDS is designed to assist you in deciding whether the products covered in this PDS are appropriate for your needs. This PDS has been prepared to assist you in comparing it with others you may be considering. The PDS is an important document and we recommend you contact us should you have any questions arising from the PDS prior to entering into any transactions with Bell Potter.

When we use terms 'we', 'us' or 'our' in this PDS, the reference is to Bell Potter. If you have any questions in relation to this PDS, please do not hesitate to contact us on 133 788 or by contacting your Dealer.

The information in this PDS does not take into account your personal objectives, financial situation and needs. Before trading in this product you should be satisfied that such trading is suitable for you in view of those objectives, and your financial situation and needs, and we recommend that you consult your investment advisor or obtain other external advice.

## 1. INTRODUCTION

Under the Corporations Act, a retail Client must receive a Product Disclosure Statement (PDS) from a financial services licensee before acquiring a financial product. The PDS is the point-of-sale document that sets out the significant features of a financial product, including its risks, benefits and cost. This Document is the PDS for Foreign Exchange derivatives, a type of financial product.

This Document seeks to explain in a clear, concise and effective Foreign Exchange derivatives. In this PDS, "Derivative" encompasses the following.

- Spot and Forward Foreign Exchange
- Currency Options
- Tailored Foreign Exchange Forwards
- Dual Currency Deposits (for Wholesale clients ONLY). Please see PDS Addendum dated 3 July, 2009.

The Foreign Exchange market is a cash interbank or interdealer market. Foreign Exchange is not a "market" in the traditional sense since there is no centralised location for trading activity. Trading occurs over the telephone and through computer terminals at thousands of locations worldwide.

Bell Potter holds a Financial Services Licence, which authorises Bell to make a market (quote prices) in Foreign Exchange contracts to retail and wholesale clients. Through counterparty relationships with major Australian Banking organisations, Bell Potter are able to access these 24-hour markets, and provide a full advisory, execution and settlement facility for Corporate foreign currency hedging, payments and trading in the Foreign Exchange markets.

Please note that in the case of trading Foreign Exchange you should give consideration to your objectives, financial situation and needs and consult with your Dealer. You should also be aware of the risks involved and be satisfied that trading in Foreign Exchange is suitable for you in view of your financial circumstances.

## 2. ISSUER DETAILS

Bell Potter offers both Corporate Foreign Exchange services, as well as the opportunity for clients to hedge and trade in Foreign Exchange markets.

ABN 25 006 390 772

Australian Financial Services Licence Number: 243480

Level 29, 101 Collins Street,  
Melbourne, VIC 3000

GPO Box 4718, VIC 3001

Telephone: (03) 9256 8700

Fax: (03) 9256 8787

Email: info@bellfx.com.au

Website: www.bellpotter.com.au

Bell Foreign Exchange (Bell FX), a trading division of Bell Potter Securities Limited, provides Corporate Foreign Exchange services, which seek to identify and implement the most appropriate Foreign Exchange solution to satisfy Corporate business needs.

Bell FX

Telephone: 1800 003 815

Fax: (08) 8224 2788

Email: info@bellfx.com.au

Website: www.bellpotter.com.au

## 3. BENEFITS OF FOREIGN EXCHANGE

### What is Foreign Exchange?

#### The Inter Bank OTC Foreign Exchange Market

There are exchange traded Foreign Exchange markets and there are non-

# PRODUCT DISCLOSURE STATEMENT (CONTINUED . . .)

exchange traded Foreign Exchange markets, the latter of which are commonly known as the Inter-Bank Over-The-Counter or OTC Foreign Exchange markets.

As the commercial banks are the major participants in the Foreign Exchange market and because they publish two way dealing quotes on most of the international currencies and invite their customers, other commercial banks and the public at large (subject to meeting the quoting banks terms of trade) to trade with them on the basis of those quotes i.e. they “make a market” in Foreign Exchange, the informal market that is thereby created is known as an “interbank” market. The inter bank market is subject to conventions and practices rather than specific rules and regulations that are used by formally constituted markets.

While central banks participate in the inter bank Foreign Exchange market they provide no direct supervisory or controlling function along the lines of that provided by an Exchange in relation to exchange traded Foreign Exchange markets. This fact and the further fact that unlike the exchange traded markets where transactions take place on a dedicated trading floor or computerised trading system, OTC Foreign Exchange transactions take place over the telephone or over various computer networks, means that each OTC Foreign Exchange contract is not registered with or reported by a central authority. As a result OTC Foreign Exchange markets can suffer from a lack of transparency. However this is compensated for by their very large size.

## **Foreign Exchange Contracts**

Unlike Foreign Exchange contracts traded on the exchange traded futures and options markets, Foreign Exchange contracts traded on the Inter Bank

OTC Foreign Exchange market are not standardised but are individually tailored to the particular requirements of the parties writing the contract.

The principal terms negotiated by the parties to the contract are the currencies traded, the amount of such currencies, the maturity date of the contract and the rate at which such currencies are exchanged.

Foreign Exchange contracts mature on an agreed and designated value date, which can be any business day acceptable to the counterparty bank making the market in the currency and Bell Potter.

Foreign Exchange contracts are deliverable contracts and can involve an obligation to give or to take delivery at maturity. Delivery terms will be spelt out in the terms and conditions regulating the individual Foreign Exchange transaction.

## **Mechanics of Foreign Exchange Trading: Quotations, Bids and Offers**

In every Foreign Exchange contract there are two currencies, primary and secondary. The currency being priced is known as the commodity currency (primary). The exchange rate is quoted such that a fixed number of units (usually one) of the commodity currency is expressed in terms of a variable number of units of the other currency - the terms currency (secondary).

A cross rate is an exchange rate derived from two other exchange rates (and not the local currency).

In an inter-bank market the quoting bank makes a two way quote. Two parties to the quotation are the quoting bank and the calling bank or market participant. The quoting bank is the party that makes the market while the calling bank or market participant is the party that calls and asks the quoting bank to make a market.

The calling bank or other participant seeking a market, performs the opposite side of the transaction to the quoting bank. If the quoting bank wishes to buy dollars then the calling bank or other market participant sells dollars. If the calling bank wishes to buy dollars then the quoting bank is selling dollars.

The first rate quoted is the bid rate and the second rate quoted is the offer rate. The bid rate is the rate at which the quoting bank is willing to buy the commodity currency. The offer rate is the rate at which the quoting bank is willing to sell the commodity currency.

If the calling bank or other market participant wishes to sell dollars to the quoting bank it must sell dollars at the quoting bank's bid rate (i.e. its buying rate). If the calling bank or other market participant wishes to buy dollars from the quoting bank it must buy dollars at the quoting bank's ask rate (i.e., its selling rate).

The difference between the bid rate and the ask rate is called the bid-offer spread. The quoting bank is seeking to make a profit by buying the commodity currency more cheaply than it sells it. Market making is the strategy of offering to deal at narrow bid-offer spreads in the expectation of dealing large volumes on both sides. Accordingly limited opportunity for volume or size of transaction can cause spreads to widen. In addition, market making can generate market intelligence through an increased awareness of transactions taking place in the market, which can assist a quoting bank in its own Foreign Exchange position taking.

## **Spot and Forward Exchange Rate Contracts**

The time element of a Foreign Exchange transaction is taken into account by dividing the market into spot and

# PRODUCT DISCLOSURE STATEMENT (CONTINUED . . .)

forward markets. The spot market is for Foreign Exchange delivered within two (2) business days; the forward market is for Foreign Exchange delivered at some specified future date. However, Foreign Exchange transactions for immediate delivery i.e. today, tomorrow (referred to as TOM) as well as for delivery up to seven (7) days later are traditionally considered to be spot transactions, although they carry a different rate depending on the specific delivery date.

Foreign Exchange contracts can be negotiated to mature on an agreed and designated value date, which can be any business day acceptable to the quoting bank making the market in the currency. Forward value dates are usually computed as a number of months from the spot value date at the time of the transaction. To be an eligible value date a value date must be a business day in the home country of the currencies involved in the transaction. Whenever there are ineligible days it is market practice to go forward to the next eligible business day.

The reason for the standard spot value date of two business days following the day on which the transaction has been closed are of a practical administrative nature. As Foreign Exchange is a global business it must overcome time differences of up to 12 hours so a standard spot value date of TODAY or TOM (the following business day) would not be practical. In addition, time must be allowed to process properly all the paper work involved. Banks executing the transfer must be allowed time to check details defining the nature of cash flows.

The exchange rate differential between the spot rate and the forward rate is called the swap rate. A forward exchange rate can move for two reasons, first, because the spot rate moved and, second, because of changes in interest rates which affected the swap rate.

The annualised premium or discount in the forward exchange market is equal to the net accessible interest differentials between the two currencies involved.

## **Participants in the Foreign Exchange Markets**

Anyone who exchanges the currency of one country for the currency of another country participates in the Foreign Exchange market.

The principal participants in Foreign Exchange markets are commercial banks and corporations. Commercial banks participate in the Foreign Exchange market as an intermediary for their Corporate customers engaging in imports and exports which must be settled in foreign currencies or on their own account as financiers of trade.

Central banks also participate as they have a responsibility to maintain the value of a domestic currency vis a vis a foreign currency. However no central bank exercises a direct supervisory or controlling function.

The Foreign Exchange market is essentially a wholesale market where the participation of individuals is very limited.

Where Foreign Exchange markets exist it cannot always be assumed that all potential participants have free access to those markets. Foreign Exchange markets in some countries, notably the developing countries, can be narrow. Sometimes governments control the market directly with exchange transactions with all but the central bank being prohibited.

## **Market Liquidity**

Market Liquidity describes the volumes, which can readily be transacted in the market. Market Liquidity Risk is the risk that it may not be possible to execute the full amount of a transaction without seriously impacting the market price.

Spot Foreign Exchange in the major currencies are some of the most liquid markets in the world. On the other hand exotic currencies can be very thin or illiquid. Even in the major currencies liquidity can be scarce at times, such as after New York inter bank trading closes and before Asian trading.

Market Liquidity is reflected in the bid-offer spread. If there are many banks prepared to quote two way prices in a particular currency at that time of day the bid-offer spread will be narrow. However if there are only a couple of banks quoting the currency or the amount is relatively large the bid-offer spread may be wide. An imminent news release which may have significant affect on the market can affect market prices by drying up liquidity temporarily.

## **Corporate Foreign Exchange – Bell FX**

Through Bell FX, Corporations can buy and sell currency as required to hedge import/export exposures and also make appropriate payments. Each company's needs are individually assessed by a Bell FX authorised representative, and appropriate Foreign Exchange limits can be established (subject to approval by Bell FX).

As each organisation's individual needs vary, further details can be obtained by contacting Bell FX.

## **Foreign Exchange Delivery Procedures**

As Foreign Exchange is a deliverable product, on value or maturity date there is a requirement to remit and receive the specified currencies and amounts. There is no delayed settlement on Foreign Exchange, and Clients must be in a position to remit the sold currency to Bell by the value date.

## **Corporate Foreign Exchange**

For Corporate accounts authorised through Bell FX, the terms of settlement

# PRODUCT DISCLOSURE STATEMENT (CONTINUED . . .)

will be specified in the agreement contract. Generally speaking, all settlements will be processed by 3pm Australian Eastern Standard Time (AEST) and the remittance of funds should be confirmed by this time.

An example of a currency delivery follows.

### **Today**

Client buys A\$100,000 and sells US\$ 90,000 at an exchange rate of USD0.9000 for 3months forward.

### **3 months forward**

Client will remit US\$90,000 to Bell Potter. Bell Potter will pay to the Client A\$100,000.

If a Corporate Client wishes to take delivery earlier or later than the originally specified value date, arrangements can be made through their Dealer to roll forward or back the position. There may be a price adjustment, profit or loss, to the client as the revised value date transaction may be at a different rate to the original trade.

### **Currency Options**

#### **What is a currency option?**

Currency Options are available to Clients through Bell FX. Retail clients are not permitted to trade short currency option positions.

The following attempts to explain the nature of a currency option contract and the obligations assumed by a person who instructs a broker to enter into an option. Several facts referred to previously are applicable to options, for example, the concept of closing out. These facts will not be repeated, but only the facts particularly relevant to currency options will be discussed below.

Looked at from the buyer's viewpoint, a currency option is the right, not the obligation, to make delivery of the traded currencies at the exercise price of the currency option granted in return for a premium.

Looked at from the seller's viewpoint the seller has no right as such (other than a right to the premium). The seller will be under an obligation to make delivery at the exercise price of the currency option if the option is exercised. There is unlimited risk associated with a short option position.

Currency options are settled by physical delivery of the currencies specified as a part of the contract at expiry.

All options traded by Bell FX are Over-the-counter (OTC) Options, as opposed to Exchange Traded Options, are agreements made directly between a financial institution and you, without being traded on an exchange.

#### **European Style Options**

Currency options are European style, and can only be exercised on the expiry date, not before.

#### **Call and Put Options**

A call currency option is the right but not the obligation to take delivery of currency at a designated price at the expiry date. A put option is the right but not the obligation to make delivery at the exercise price at expiry. Each put or call option has a buyer and a seller.

#### **Exercising call and put currency options**

The diagram below sets out the results from the buyer's and seller's viewpoint when the buyer exercises a call or put Foreign Exchange option:

| <b>Buyer</b>          |   | <b>Seller</b>       |   |
|-----------------------|---|---------------------|---|
| Bought call option -> | Buy currency at the strike price of the option  | Sold call option -> | Sell currency at the strike price of the option |
| Bought put option ->  | Sell currency at the strike price of the option | Sold put option ->  | Buy currency at the strike price of the option  |

A bought call option is considered "in-the-money" when the underlying market is above the strike level at expiry, thus enabling the buyer of the option to buy the currency at a lower price. A bought put option is the reverse, it is "in-the-money" if the underlying market is below the strike level at expiry enabling the buyer to sell the currency at a higher price than the available market.

#### **Profit and loss when trading options**

The diagram below sets out profit and loss situations when trading call and put options:

| <b>Profitable Trades</b> |                       | <b>Losing Trades</b>  |                       |
|--------------------------|-----------------------|-----------------------|-----------------------|
| Buying a call option     | - Buy low Sell high*  | Buying a call option  | - Buy high Sell low*  |
| Buying a put option      | - Buy high Sell low*  | Buying a put option   | - Buy low Sell high*  |
| Selling a call option    | - Sell high Buy low** | Selling a call option | - Sell low Buy high** |
| Selling a put option     | - Sell low Buy high** | Selling a put option  | - Sell high Buy low** |

\*Refers to the buying of the option. \*\* Refers to the selling of the option.

# PRODUCT DISCLOSURE STATEMENT (CONTINUED . . .)

## **Out of the money options**

This is a term used to describe an option that cannot be exercised at a profit. An out-of-the-money option is a call option whose strike price is higher than the current market level or a put option whose strike price is below market.

A Client contemplating purchasing a deep out-of-the-money option should be aware that the chance of such an option becoming profitable is ordinarily remote.

## **Tailored Forwards**

There are combinations using various option strategies that can be constructed to provide hedge cover for Corporate Clients through Bell FX. Clients should note that it might not be possible to effect a settlement of a Tailored Forward prior to the expiration date. You may request Bell FX to cancel a Tailored Forward before the delivery date, in which event either you or Bell FX will be obliged to make an adjustment payment in respect of price adjustment on cancellation. As these may be complex, further details will be supplied upon request to Corporate Clients only.

## **4. BASIC RISKS EXPLAINED**

The risk of loss in trading in derivatives contracts can be substantial. A Client should carefully consider whether trading is appropriate for them in light of their financial circumstances. In deciding whether or not you will become involved in trading, you should be aware of the following matters:

### **• Market and Volatility Risk:**

Both foreign exchange and derivatives markets are influenced by many factors, which may result in a rapid deterioration of a position in the market. Given the potential levels of volatility in both products it is recommended that you closely monitor your positions.

### **• Additional Margin Requirements:**

If the derivatives market moves against your position, you may be required, at short notice, to deposit with your broker variation margin in order to maintain your position. Those additional funds may be substantial. If you fail to provide those additional funds within the required time, your position may be liquidated at a loss and you will be liable for any shortfall in your account resulting from that failure.

You could sustain a total loss of any initial margin that you deposit with your broker to establish or maintain a derivatives contract.

### **• Liquidity Risk:**

Under certain conditions, it could become difficult or impossible for you to close out a position. This can, for example, happen when there is a significant change in prices over a short period.

The placing of contingent orders may not always limit your losses to the amounts that you may want. Market conditions may make it impossible to execute such orders.

### **• Counterparty Risk:**

As Bell FX, as a division of Bell Potter Securities, is the issuer of the products referred to in this PDS, you are exposed to business risks, including financial and credit, in dealing with us. This is common to most OTC financial market products. Bell FX has financial requirements placed on it by the Australian Securities & Investments Commission as a requirement of its Australian Financial Licence.

### **• Operational and System Risk:**

Bell FX relies on a number of systems and processes to deliver you with the products and services offered under this PDS. Disruptions to any system or process used may lead to delays in the execution and settlement of your

transaction. Bell FX will not be liable to you for any transaction that fails to be executed or settled due to these disruptions.

### **• Capital Loss:**

If you propose to trade in currency options, the maximum loss in buying an option is the amount of the premium, but the risks in selling an option is unlimited. If, contrary to Bell FX requirements, you are utilizing your positions in the market to speculate, you should be aware that you face unlimited losses.

## **Interaction with the Interest Rate Market**

Along with the Foreign Exchange market the money market is the other principal international financial market. It is not surprising that each of these markets is interdependent on the other.

The interaction between the money market and the Foreign Exchange market provides the basis for the relationship between the spot rate and the forward rate and the justification of the spread between the two dates.

A forward exchange rate is a rate agreed today at which one currency is sold against another for delivery on a specified future date. Forward rates differ from spot rates to reflect the differing interest rates prevailing in the two countries.

Between the spot date and the value date of a forward exchange contract one party holds the higher yielding currency while the other party holds the lower yielding currency. In effect the forward rate differs from the spot rate to the extent to which the holder of the higher interest rate currency is willing to and is expected to compensate the holder of the lower interest rate currency.

The forward rate differs from the spot rate only because of the interest rate differential. Provided it is possible to borrow and lend the two currencies the

# PRODUCT DISCLOSURE STATEMENT (CONTINUED . . .)

forward price is merely a mechanical function of the spot rate and the two interest rates. The forward rate is not what the market expects the spot rate to be at the future date.

The rates used to calculate forward exchange rates are those, which are net and accessible to the parties involved. For example if a resident borrows from or lends to a non-resident the transaction may be subject to interest withholding tax. The interest rates used to calculate forward exchange rates should be inclusive of withholding tax.

Changes in interest rates affect exchange rates and changes in exchange rates can affect interest rates. A depreciating currency can lead to price inflation and monetary authorities tightening interest rates to dampen the inflationary effect of a weakening currency. On the other hand sometimes central banks consider exchange rate stability to be an important economic objective and they may use monetary policy to help achieve exchange rate targets. Raising interest rates will tend to attract capital thereby supporting the exchange rate.

## 5. Fees and other Costs

Bell FX does not charge fees for you to enter into a foreign exchange or options contract. Our return is generated from the spread between the wholesale rate achieved by Bell FX and your Trade price; therefore it can be viewed as an indirect cost to you. This spread will vary in accordance with the size of the transaction and the type of product traded.

Example:

This example is indicative only and the rates shown are for illustrative purposes only.

Your wine import business wishes to purchase USD 1,000,000 to pay a Napa Valley based supplier. As your business' revenue is based in AUD, you wish to pay AUD for the USD purchase.

- The rate quoted to you by Bell FX for this transaction is AUD/

USD 0.9341. Therefore the AUD amount that is required to pay for USD 1,000,000 is AUD 1,070,549.20.

- The Wholesale rate available to Bell FX in the market is AUD/USD 0.9346, which for USD 1,000,000 equates to AUD 1,069,976.47. This is the amount Bell FX will pay another institution to buy UDS 1,000,000.
- In this example the spread is represented by the difference between the two exchange rates, which is approximately 0.54% or AUD 572.73.

## Remuneration

Bell Potter Securities receives all spreads in the first instance and, depending on the service provided, Client Dealers may receive between 45% and 50%. The proportion payable to the Dealer varies, based on a number of factors, and may increase if the revenue that they generate exceeds a predetermined level in any particular year. This does not impact on, or increase, the Brokerage, Commission or Fees payable by Clients for services received. If, for example, the total brokerage on an FX transaction was \$100 (excluding GST), then the proportion paid to the Dealer as remuneration would be \$45-\$50 depending on the overall revenue generated by that Dealer across all of his or her clients. In this example, GST of \$10 would also be payable.

## Margins and liability on Currency option contracts

If a Client buys a Foreign Exchange option, their loss is limited to the premium, which is non-refundable and due on execution of the order.

A Client who sells the option has an unlimited liability. However, they only have limited profit potential, a seller cannot earn more than the premium for which the option is sold. Retail Clients are only able to instruct the selling of options where an existing open bought position is held. The closing or selling instruction must have the same characteristics of

strike, value and quantity as the bought position to enable any long position to be netted out.

## 6. OTHER SIGNIFICANT CHARACTERISTICS OF DERIVATIVES CONTRACTS

### Regulatory bodies

A Client may incur losses that are caused by matters outside the broker's control. For example, a regulatory authority exercising its powers during a market emergency may result in losses.

### Market disruptions / emergencies

A market disruption may mean a Client is unable to deal in a derivatives contract when desired, and a Client may suffer a loss as a result. Common examples of disruption include the "crash" of a computer based trading system, fire or other exchange emergency, Foreign Exchange regulatory bodies could declare an undesirable situation has developed in a particular Foreign Exchange contract and suspend trading.

### Risk Capital

If you are speculating 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.

## 7. DISPUTE RESOLUTION

As part of its commitment to customer service Bell Potter has in place a complaints handling procedure consistent with the Australian Standard.

In the first instance Clients should raise any complaint that they have with their Dealer. If the matter cannot be resolved:

1. Send your complaint in writing to the Compliance Manager at Bell Potter Limited, PO Box N689, Grosvenor Place, Sydney, NSW 1220. If you have not received a satisfactory response or 45 days have elapsed you may refer the matter to the Financial Ombudsman Service ("FOS").
2. Bell Potter Securities Limited is a member of the FOS. FOS can

# PRODUCT DISCLOSURE STATEMENT (CONTINUED . . .)

be contacted on Toll Free 1300 78 08 08 or GPO Box 3 Melbourne VIC 3001 or via email [info@fos.org.au](mailto:info@fos.org.au). This service is provided to you free of charge.

3. You may also choose to refer the matter to the Australian Securities and Investments Commission (ASIC). ASIC may be contacted on their free call Infoline on 1300 300 630.

If you require further information on how complaints are handled by Bell Potter Limited, please visit our website on [www.bellpotter.com.au](http://www.bellpotter.com.au) or refer to your Financial Services Guide.

## 8. TAXATION IMPLICATIONS

It is important to note that a Client's tax position when trading derivatives will depend on their individual circumstances. The taxation consequences of dealing in derivatives depend upon whether the taxpayer trades in derivatives, is merely speculating in derivatives or is using derivatives to hedge against a particular exposure. Care must be taken, as a particular derivative transaction may have elements of more than one of the categories of trading, speculating or hedging or there may be other considerations, which are relevant in determining the taxation consequences of dealing in a particular derivatives contract. Relevant factors include the purpose of the taxpayer in entering into the derivative contract transaction, whether the taxpayer is involved in business or commerce, the taxpayer's overall activities and the place the particular Foreign Exchange contract has in relation to those activities and the economic nature of the transactions.

**Please note that Bell Potter Limited does not provide taxation advice and that investors must consult their own taxation Dealer in relation to the tax consequences of trading in Foreign Exchange Derivatives.**

## 9. COOLING-OFF ARRANGEMENTS

There are no cooling-off arrangements for derivative contracts.

## 10. TELEPHONE RECORDINGS

Conversations with Bell FX trading staff are taped, and retained for 7 years, pursuant to the ASX 24 Operating Rules. Bell FX will not enter into a transaction over the telephone unless the conversation is recorded.

## 11. PRIVACY

Bell FX only collects information that is necessary to provide you with the service that you request. Please refer to our Privacy Policy for more details. Bell FX abides by the National Privacy Legislation.

# PRODUCT DISCLOSURE STATEMENT

## (CONTINUED . . .)

### GLOSSARY OF TERMS

Below is a list of some words used in this PDS and their meanings.

|                              |  |
|------------------------------|--|
| <b>American Style Option</b> | An option which is capable of exercise at the Exercise Price at any time up to the Expiry Date.  |
| <b>ASIC</b>                  | Australian Securities & Investments Commission.  |
| <b>Call Option</b>           | An option where the buyer of the option has the option to buy the underlying asset from the seller (granter) of the option at the Exercise Price on the Expiry Date.   |
| <b>Corporations Act</b>      | The Corporations Act 2001 of the Commonwealth of Australia, as amended from time to time or if the Corporations Act 2001 should be repealed or cease to any extent to operate, then that legislation that is enforced in the State of New South Wales or any other State or Territory as the case may be from time to time in partial or complete substitution for the Corporations Act 2001 and references to specific provisions of the Corporations Act 2001 are to be construed as references to the provisions of that replacement legislation. |
| <b>Derivatives</b>           | A Foreign Exchange contract or Foreign Exchange option traded on a Foreign Exchange.   |
| <b>Exercise Price</b>        | The price at which a Buyer shall purchase or sell the underlying Foreign Exchange Contract upon the exercise of an Option Contract.  |
| <b>Expiry Date</b>           | In relation to a Foreign Exchange Option, the date on which the option expires as designated in the contract specifications.   |
| <b>European Style Option</b> | A European Style option can only be exercised at Expiry Date and not before.   |
| <b>Initial Margin</b>        | The amount that a Client should have in the Account to establish a position in a Foreign Exchange Contract   |
| <b>Long</b>                  | A bought position in a Foreign Exchange contract.  |
| <b>Margin Call</b>           | A demand for additional funds to be deposited in an account to meet margin requirements because of adverse price movements.  |
| <b>Market Order</b>          | An order to buy or sell a Foreign Exchange contract immediately at the current price.  |
| <b>Option Premium</b>        | The purchase price paid to buy an option.  |
| <b>Put Option</b>            | An option where the buyer has the right to sell the underlying asset to the seller (granter) of the option at the Exercise Price and the Expiry Date.  |
| <b>Short</b>                 | A sold position in a Foreign Exchange contract.  |
| <b>Strike Price</b>          | Another word for the Exercise Price.   |
| <b>Variation Margin</b>      | The difference between the value of a Foreign Exchange contract when it is initially bought or sold and its value marked to market at any given time   |

# ADDENDUM TO PRODUCT DISCLOSURE STATEMENT

## DUAL CURRENCY DEPOSITS

**Issued by:** Bell Potter Securities Limited  
AFSL No. 243480 ABN 25 006 390 772  
**Issue Date:** 3 July 2009

### IMPORTANT INFORMATION

This Addendum to the Product Disclosure Statement dated 22 July 2008 issued by Bell Foreign Exchange (Bell FX), a division of Bell Potter Securities Limited (Bell Potter) and is current as at 3 July 2009. It provides information in relation to Dual Currency Deposits. Further information can be obtained by speaking to your Bell Potter adviser. All calls to Bell Potter are recorded.

### UPDATED INFORMATION

The information in this Addendum to the Product Disclosure Statement dated 22 July 2008 may be subject to change. Updates will be advised to your Bell Potter adviser.

### WHOLESALE CLIENTS ONLY

This Addendum to the Product Disclosure Statement dated 22 July 2008 is intended for wholesale clients only, as defined by the Corporations Act 2001. Distribution of it in jurisdictions outside Australia may be restricted by local law in a foreign jurisdiction and, persons who come into possession of it, who are not in Australia, should seek advice.

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### DUAL CURRENCY DEPOSITS OVERVIEW

#### What is a Dual Currency Deposit?

A Dual Currency Deposit is a term deposit whereby you agree to deposit either Australian Dollars or another currency with Bell Potter. Bell Potter in its sole discretion, can repay the deposit to you in either the currency the deposit is made in or another pre-agreed currency. You earn an enhanced interest rate in return for you giving Bell Potter the right to repay the deposit in its choice of the two currencies.

#### What currencies can be used?

Deposits are generally available in: Australian Dollars (AUD), United States Dollars (USD), New Zealand Dollars (NZD), Great British Pounds (GBP), Euros (EUR) and other currencies as agreed by Bell Potter.

#### What is the minimum transaction amount?

The amount of any individual deposit must not be less than the equivalent of AUD100,000.

#### What terms are available?

Terms are available from 1 week to 1 year.

#### When is it paid?

Interest is paid on maturity.

### PRODUCT DESCRIPTION

#### How do you transact?

On, or before the deposit date, you and Bell Potter agree to the following:

- A Deposit Currency and Deposit Amount,
- An Exchange Currency,
- An Exchange Rate,
- A Maturity Date, and
- An Interest Rate Day Count Fraction.

On the Maturity Date, at the Maturity Time, Bell Potter will determine whether it will repay the deposit in either the Deposit Currency or the Exchange Currency. If Bell Potter elects to repay the deposit in the Exchange Currency then the Deposit Currency will be converted to the Exchange Currency at the Exchange Rate, which has already been pre-agreed between you and Bell Potter.

On the Maturity Date, Bell Potter will also pay you an interest amount based on the Interest Rate, Deposit Amount and Term, in the Deposit Currency.

### SETTING OF INTEREST RATE AND EXCHANGE RATE

The Interest Rate can be varied to achieve an Exchange Rate that may better meet your views on the Deposit and Exchange Currencies. Raising or lowering the Exchange Rate will make the Interest Rate less or more favorable for you. Refer to the example below.

### FACTORS EFFECTING WHETHER BELL POTTER CONVERTS CURRENCIES ON MATURITY DATE

Bell Potter will choose to exchange the Deposit Currency for the Exchange Currency at its sole discretion. If the Spot Exchange Rate for the Deposit Currency and the Exchange Currency is the same or more favorable than the Exchange Rate, Bell Potter may elect, but is not obligated to repay in the Exchange Currency. If the Spot Exchange Rate for the Deposit Currency and the Exchange Currency is less favorable than the Exchange Rate, Bell Potter will repay the Deposit Currency plus accrued interest.

### USES OF THE DUAL CURRENCY DEPOSIT

The Dual Currency Deposit may suit a holder of a currency who is not committed to exchanging it into another currency but is willing to have it exchanged at an agreed price. Such a holder will have the opportunity of interest rate enhancement whilst the currency is held on deposit.

Alternatively or in addition, the holder may have a targeted exchange rate in mind and is willing to risk adverse currency movements whilst they wait for the targeted rate to be achieved. The holder will earn an enhanced rate of return but runs the risk that the targeted level of exchange may not be achieved.

Dual Currency Deposits are best suited to clients seeking enhanced interest rate returns. They are not suited to clients seeking a product that will reduce their financial exposure to adverse currency movements.

# ADDENDUM TO PRODUCT DISCLOSURE STATEMENT

## DUAL CURRENCY DEPOSITS

### Example 1

A client has USD1,000,000 held in a foreign currency deposit account. The current spot exchange rate is 1 AUD = 0.8000USD. The current 1 month USD deposit rate is 0%. The client is prepared to hold the funds in USD but would like to exchange into AUD if the exchange rate moves to 1 AUD = 0.7775.

The client agrees to make a Dual Currency Deposit with Bell Potter whereby the USD deposit is fixed for one month at an enhanced interest rate of 12% per annum. An Exchange Rate of 1 AUD = 0.7775 is agreed between Bell Potter and the client.

| Results on Maturity | Bell Potter Elects to Exchange                | Rate   | Depositor Repayment                           |
|---------------------|---|--------|---|
|                     | Yes – Likely if AUD/USD is less than 0.7775   | 0.7775 | AUD1,286,173.60<br>Plus Interest<br>USD10,000 |
|                     | No – likely if AUD/USD is greater than 0.7775 |        | USD1,000,000<br>Plus Interest<br>USD10,000    |

### Example 2

A client may prefer a target Exchange Rate of 1 AUD = 0.7675. As this Exchange Rate is further away from the current spot exchange rate of 1 AUD = 0.8000USD, the yield enhancement is lower. In this instance Bell Potter offers a one-month enhanced interest rate of only 9% per annum.

| Results on Maturity | Bell Potter Elects to Exchange                | Rate   | Depositor Repayment                          |
|---------------------|---|--------|--|
|                     | Yes – Likely if AUD/USD is less than 0.7675   | 0.7675 | AUD1,302,931.50<br>Plus interest<br>USD7,500 |
|                     | No – likely if AUD/USD is greater than 0.7675 |        | USD1,000,000<br>Plus Interest<br>USD7,500    |

### BENEFITS AND RISKS

#### BENEFITS

Dual Currency Deposits provide you with the opportunity to earn an interest rate higher than the interest rate on comparable standard Bell Potter foreign currency term deposits.

#### RISKS

This product does not lessen the risk from exposure to adverse movements in currency exchange rates or interest rates. This product may also remove some or all of the benefits arising from favorable movements in currency exchange rates or interest rates.

If the Dual Currency Deposit has been converted into the Exchange Currency and you seek to reconvert back into the Deposit Currency, then you may face a loss of capital in Deposit Currency terms.

The Spot Exchange Rate may move above your targeted rate during the term of the deposit but may move back below the targeted rate prior to the Maturity Date. Alternatively, the Spot Exchange Rate may move below your targeted rate during the term of the deposit but may move back above the targeted rate prior to the Maturity Date. The deposit will be repaid in the Deposit Currency and no exchange of currencies occurs. You thus will have missed the opportunity to deal at your targeted rate.

A payment to or from your foreign currency account may be subject to local and foreign regulations, and laws (including taxes). There is a risk that Bell Potter may be unable to make or receive a payment to or from your account because of local or foreign regulations and laws (including taxes) that apply to the payment.

#### DEFINITIONS

**Deposit Amount** means the amount of the Deposit Currency deposited on the Deposit Date.

**Deposit Date** means the date the Deposit is received.

**Deposit Currency** means the currency in which the deposit is denominated.

**Exchange Currency** means the currency Bell Potter may elect to make repayment in, if not the deposit currency.

**Exchange Rate** means the rate, agreed to by you and Bell Potter, at which the Deposit Currency will be exchanged for the Exchange Currency.

**Interest Rate Day Count Factor** means the Interest Rate will be based on either a 360 day or 365 day year depending on the deposit currency.

**Maturity Date** means the date on which your Dual Currency Deposit matures and will be repaid. If the Maturity Date is not a business day (being the day on which banks are open for banking business in the place in which the deposit was made), the repayment. Will be made on the next business day.

**Maturity Time** means the time of day as specified on the confirmation advice of the transaction.

**Spot Exchange Rate** means the Market Exchange Rate, at the time, for transactions to be settled in 2 business days time.

