

**Commodity Broking Services Pty Ltd**

**ABN: 32 110 128 286**

**Level 14, 309 Kent St, Sydney, NSW 2000**

---

**PRODUCT DISCLOSURE STATEMENT ("PDS")**

**PART 4**

---

**AUSTRALIAN FINANCIAL SERVICES  
LICENCE NO: 280372**

**DATE: 30<sup>th</sup> July 2006**

**The information and any general advice in this PDS do 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 as well as considering the risks associated with dealing in those products. You should read all sections of this PDS before making a decision to acquire the financial products described herein.**

**We recommend that you consult your financial adviser or obtain other independent advice before trading in the products referred to in this PDS.**

# TABLE OF CONTENTS

## PART 4

1.	<i>Introduction</i> .....	2
2.	<i>CBS acts as principal</i> .....	2
3.	<i>What products does this Part 4 of our PDS cover?</i> .....	2
4.	<i>Purpose of CBS CFDs products</i> .....	6
5.	<i>The Trading Platform</i> .....	6
6.	<i>How is the CFD price calculated?</i> .....	7
7.	<i>How are the CFD products traded?</i> .....	8
8.	<i>Realised and Unrealised Profits and Losses</i> .....	8
9.	<i>Margin obligations</i> .....	8
10.	<i>Closing a CFD product</i> .....	10
11.	<i>Confirmation of Transaction</i> .....	10
12.	<i>Costs of CFD Products</i> .....	11
13.	<i>Interest on Credit and Debit Balances</i> .....	12
14.	<i>CFD Examples</i> .....	14
15.	<i>Significant Benefits of the CFD product</i> .....	15
16.	<i>Significant risks explained</i> .....	17
17.	<i>Product Specific Acknowledgements</i> .....	23
18.	<i>Trading Hours</i> .....	24
19.	<i>Taxation Implications</i> .....	24
20.	<i>Cooling-off Arrangements</i> .....	24

## **1. Introduction**

This Part 4 of our PDS is for Contract for Difference (“CFD”) products provided by CBS. A CFD is an agreement under which one party is entitled to be paid an amount of money, or to pay an amount of money, depending on movements in the price or value of an underlying security or stock index.

One form of CFD offered by CBS is, in effect, a “synthetic” security (share or stock) and offers the investor similar opportunities for investing and profiting from securities as when trading securities in the traditional manner. CBS also offers index-tracking CFD’s where the investor has the opportunity for investing and profiting from price movements in a stock index.

Instead of physically buying and holding a particular share, the CFD holder gets indirect access to the share’s price movements. In other words, you access share price movements, without ever taking delivery of the actual shares. Accordingly, a CFD gives you the benefits of trading shares without having to actually buy/own the stock. A CFD simply mirrors the movement of a particular stock or an index.

As a result, CFD’s are most commonly created in major international share market indices and their individual underlying instruments (securities). The basic unit of account for an individual share CFD is 1 share (subject to minimum acceptable deal size), valued at one cent per point. The contract value (also known as face value of a CFD) is defined as the number of shares specified in the contract multiplied by the price of the underlying share. The unit of account for an index CFD is usually the index itself (e.g. one Dow Jones). The contract value for an index CFD is the number of points in the index times the value per point.

These are Over the Counter (“OTC”) products, meaning that the CFD is not traded on a regulated Stock Exchange. Rather, a CFD is a contract between a client and a CFD provider or market maker. Accordingly, there is no protection from a Clearing House of a regulated Stock Exchange to guarantee the transaction (known as “novation”).

CFD’s are traded on a *margin*ed basis as opposed to paying for the full value of the contract. In other words, investors are required to lodge funds as security (initial margins) and to cover all net debit adverse market movement (variations margins) i.e. positions are monitored on a mark-to-market basis to account for any market movements. When clients are making a loss they are required to “top up” their accounts or to "close out" their position. Your account is debited or credited daily on a mark-to-market basis in accordance with the movement of the underlying share price or index until you close your position and crystallise your gains or losses by conducting an equal and opposite trade. Your gains and losses are posted to your account.

Hence, CFD’s are defined as a derivative product and are settled daily on the basis of movements in the prices of the underlying assets. Like other derivatives, CFD’s are designed for those investors who wanted to benefit from movements in an underlying asset, but do not need any rights of ownership to that asset.

The CFD contract is valued each day against the closing stock/index price and your account is credited or debited to reflect profit or loss, interest and dividend adjustments. CFD's have no settlement period and you can keep the position open indefinitely, providing there is sufficient margin in your account to support the position.

CFD's can be created to mirror any financial instrument but the most popular are based on securities or indices. Dealing in margin foreign exchange contracts is often settled "on difference", although the contracts are not generally advertised as CFD's. Accordingly, in this Part 4 of our PDS, we specifically concentrate on security and stock index CFD's. For our margin foreign exchange products, we refer you to Part 3 of our PDS for that financial product.

## **2. *CBS acts as principal***

When dealing in CFD products, CBS is a market maker (or CFD provider), not a broker, and accordingly will act as a principal, not as an agent, in respect of all transactions with you. Accordingly, the CFD's referred to in this PDS are issued by CBS.

CBS will regularly state, via its online trading platform, the price at which it is prepared to deal with you as principal. This is known as being a 'market maker'. Should you decide to transact with CBS then CBS will enter into a legally binding contract with you (as principal) i.e. it will be the counterparty to the transaction and each product purchased (or sold) by you will be an individual agreement made between you and CBS.

## **3. *What products does this Part 4 of our PDS cover?***

CBS CFD products do not result in the physical delivery of the security but are cash adjusted or closed by the client taking an offsetting opposite position **i.e. there is not a physical settlement and the client does not actually buy or sell the actual underlying share**. Positions will always be closed and the client's account will be either credited or debited according to the profit or loss of the trade (we refer you to section 7 of this Part 4 of our PDS in regards to understanding realised versus unrealised profits and losses from transacting).

Our CFD products are as follows:

### **(i) *Security CFD's:***

A security CFD is essentially a synthetic security position i.e. it mirrors the movement of a particular share or stock but at the same time gives the holder the same economic exposure as if they were buying or selling the physical share or stock. In other words, it gives you the benefits of trading shares without having to actually buy/own the stock.

CFD's on individual securities are non-deliverable and carry no voting rights. However, in all other respects including dividends and corporate actions, CFD's

mirror the underlying shares. If you think that the price of the underlying share is going to rise, you buy a contract at the offer price. If you think that the price of the underlying share is going to fall, then you sell a contract at the bid price. A CFD quote e.g. CFDBHP "14.75 / 14.78" represents the bid/ask spread (in this case for BHP contracts). This quote means that you can:

- (a) buy CFDBHP at 14.78; and/or
- (b) sell CFDBHP at 14.75.

Security CFD prices are linked directly to the underlying stock price.

Security CFDs give the holder the same economic exposure as if they were buying or selling the physical stock.

- A long position in CFD's receives all the returns of an equivalent long position in the underlying security, making a profit if the share or stock price rises but a loss if the share or stock price falls, and pays a daily financing charge.
- A short position in CFD's receives a daily financing charge and pays away any returns, should the share or stock price rise, but will profit if the share price goes down i.e. you are able to buy the position back at a lower price. This is equivalent to taking a short position in the underlying share or stock.

(a) *Voting rights*

CFD's on individual securities are non-deliverable and thus you do not own the securities. Accordingly, as you do not own the securities you do not have voting rights.

(b) *Corporate Action*

CFD holders also participate and receive all the benefits of any corporate action in the underlying security upon which the CFD is based (for example a rights issue). Applying the same formula used by the relevant exchange, CFD terms will be altered to reflect any corporate action i.e. the adjustment will be to replicate the corporate action on the underlying security. Corporate actions include bonus, rights and warrant issues, and amalgamation and sub-divisions of share capital. If this is not possible then CBS may, at its discretion, make an equivalent cash adjustment. This will apply to positions held at the close of business on the preceding business day to the ex-corporate action date. With regard to takeover situations please refer to the comments in Section 10 of this Part 4 of our PDS headed "Confirmation of Transactions".

(c) *Treatment of Dividends*

Although you are not the beneficial owner of the shares, as the holder of a long CFD position you are entitled to receive a cash sum similar to any dividend declared by the company while the position is held open. Accordingly, net dividends are credited to long positions and debited from short positions held at the close of business on the day before the ex-dividend date i.e. if you hold a **long** CFD, you will be credited with an amount equal to the gross unfranked dividend on the underlying shares on the business day after the ex-dividend date (CFD's do not confer rights to any dividend imputation credits).

Conversely, if you are the holder of a short CFD, you are required to pay a sum equal to the gross dividend and your account will be debited an amount equal to the gross unfranked dividend on the underlying shares on the business day after the ex-dividend date.

The deciding date for the entitlement to a dividend is the same as the ex-dividend date declared by the relevant company. You are advised to check the dates of any impending dividends before entering into CFD positions.

Accordingly, while conventional share (security) trading remains the most common form of investment, there are other new methods of trading securities on a short-term basis that may be more cost efficient. *CBS* offers CFD trading in securities listed on various Stock Exchanges world wide. For a listing of these Stock Exchanges you are referred to the Part 5 of this PDS.

(ii) **Index CFD's:**

Using index CFDs, clients are able to take positions to profit from price movements in a stock index. Index CFDs can be useful if you do not have a view about specific securities but feel that the relevant market as a whole will move in a certain direction. Index CFD's enable you to spread investment risks across an entire stock index instead of being based on a single security.

For example, if you have a share portfolio and are worried about the market going down in the short term it may be cheaper and more efficient to sell an index CFD rather than sell the entire portfolio.

Index CFD's are non-deliverable and carry no voting rights in the underlying securities which make up the index. If you think that the value of a particular stock index is going to rise, you buy a contract at the offer price. If you think that the price of the particular stock index is going to fall, then you sell a contract at the bid price. An ASX S&P 200 CFD quote e.g. "3600.0 / 3605.00" represents the bid/ask spread (in this case for Australian Stock Exchange).

This quote means that you can:

- (a) buy the ASX S&P 200 CFD at 3605.0; and/or
- (b) sell the ASX S&P 200 CFD at 3600.0.

Index CFD prices are linked directly to the underlying stock index price.

*CBS* offers index CFD trading in various stock indices. For a listing of these stock indices you are referred to the Part 5 of this PDS.

Buying a CFD creates an asset. The position is said to be **long** the CFD. If the price of the CFD appreciates, there will be a gain. If the price of the CFD depreciates, there will be a loss. Selling a CFD conversely creates a liability. The position is said to be **short** the CFD. If the price of the CFD depreciates, there will be a gain. If the price of the CFD appreciates, there will be a loss. We refer you to Section 13 of this Part 4 of our PDS for specific examples.

An open CFD position may be closed out or liquidated by the execution of an equal and opposite position. In this situation, initial margins for the positions will not be required as no positions will be open.

All of these CFD products can be traded in conjunction with our limit and stop loss orders which are designed to either optimise your exposure to the market or limit your loss by instructing that trades be executed at pre-determined price levels. Stop losses are instructions to close out an open position if a market trades through a specific level. Stop losses are often used to attempt to limit the amount which can be lost on a position. We note that stop losses are not guaranteed and are direct a result of market volatility and liquidity. The operation of these order types should be discussed with your *CBS* representative. You should also refer to our Client Agreement Form (“CAF”) with respect to the operation of these order types.

When trading *CBS* products you should be aware of the risks and benefits (as set out in Sections 14 and 15 of this Part 4 of our PDS). Examples of how *CBS* CFD products can be traded are provided in Section 14 of this Part 4 of our PDS. The examples provided in Section 14 of this Part 4 of our PDS are only provided for illustrative purposes and use figures which attempt to demonstrate how the relevant *CBS* CFD products work. Those figures do not necessarily reflect *CBS*'s or your personal circumstances and do not restrict in any manner the way in which *CBS* may exercise its powers or discretions. Those examples do not constitute general or personal financial product advice to any person reading this PDS.

#### **4. Purpose of CBS CFD products**

A CFD is an ideal way to trade individual securities (shares or stocks) on a margin basis as it offers the investor nearly all the benefits of trading in the underlying share or stock, whilst avoiding many of the costs and more limited market availability in the purchase of physical shares. With CFD's, you do not have to fully fund the value of your underlying position. Instead you deposit an Initial Margin, normally between 10-100% of the full contract value and are required to cover all net debit adverse market movement (variations margins) i.e. positions are monitored on a mark-to-market basis to account for any market movements.

CFD products may also be used to hedge market exposure i.e. CFD's can be used as a risk management tool to enable those who own the underlying shares to lock in a sale price for the shares concerned by taking a short CFD position. Then, if the price of the underlying shares the investor holds does fall, the profit on the short CFD position will wholly or partly offset the losses incurred on the physical holdings.

Unlike physical assets, CFD's enable you to benefit from both rising and falling markets i.e. CFD's can be sold short with ease and without owning or borrowing the underlying instrument. Other methods of shorting physical securities are often inconvenient and expensive.

The speculator may also use CFD products. A client may take a view of a particular security or stock index and therefore invest in our CFD products according to this belief in anticipation of making a profit.

#### **5. The Trading Platform**

Rather than supporting our clients via more traditional telephone and voice based trading activities, *CBS* offers its clients a highly efficient, properly controlled on-line trading environment i.e. *CBS* allows its clients to trade CFD products using a very sophisticated, highly secure, trading and information system, which operates over the internet. This platform is known as *Falcon Trader* and provides clients with real-time market prices and fully integrated user access, credit and risk management controls.

Other than for large transactions (i.e. those transactions in excess of AUD \$1000000, transactions can be placed and/or executed automatically using the *Falcon Trader*. Clients seeking to execute a "large transaction" will need to "request a quote" from *CBS* prior to execution of the order. This "request for a quote" is performed online. Should the system be unavailable, clients may place their orders via telephone with a representative of *CBS*. We note that phone orders may incur an additional fee (other than for those large transactions whereby clients are requesting a quote). This is a result of *CBS* taking on the additional risk to execute the transaction.

Once an order is received, either electronically or via the telephone, *CBS* at or about the same time performs a "back to back" transactions (in its own name) with another CFD

provider or market maker to hedge its book so that it has no direct market exposure. **This back-to-back transaction does NOT include a spread in favour of CBS.** In other words, CBS backs out the transaction (in its own name) **at the same price at which it sells or buys the CFD product from you.** This third party CFD provider to which CBS backs out or hedges its transaction, is Saxo Bank A/S (“Saxo Bank”).

Saxo Bank is a fully regulated investment institution with full European Union (“EU”) bank status. It is also regulated by the Australian Securities & Investments Commission (ASIC) and holds an AFS Licence (number 277527) and is furthermore licensed by “Finanstilsynet” or the Danish Financial Supervisory Authority (“DFSA”) in Denmark.

## **6. How is the CFD price calculated?**

CFD prices are linked directly to their underlying share or stock (or stock index) price. The prices are quoted as seen in the underlying market (e.g. AUD securities in cents, UK securities in pence, US securities in cents). Trades are always executed in the base currency i.e. Australian Dollar for AUD securities, Sterling for UK securities, US Dollar for US securities and Euro for European securities. Accordingly, the CFD price typically mirrors and moves in accordance with the movement of the underlying share price or index.

CBS earns its income from the commission it charges for performing the transaction plus any interest charged on your account. We refer you to Part 5 of our PDS for additional information regarding the fees.

The prices quoted by *Falcon Trader* are the prices that CBS is offering for its CFD’s. CBS prices for its CFD’s may not be the same as those in the underlying market on which the CFD is based. Furthermore, the spreads in the CFD’s may not be the same as those available in the underlying market.

Accordingly, it is for you to decide whether you wish to deal in the CFD’s offered by CBS or in the actual asset in the relevant underlying market.

CBS makes special mention that it cannot predict CFD prices (or the prices of the underlying security or index) and our quotations are not a forecast of where we believe CFD prices (or the prices of the underlying security or index) will be at a future date. CBS calculates CFD prices taking into consideration the underlying stock (or index) price.

The calculation of the price for CFD products offered by CBS, at the time the contract is purchased or sold, will be based on CBS’s best estimate of the underlying share price, index, market prices and other market conditions and the application of a minimum spread.

CBS does not provide a market amongst or between clients for investments or speculations. As stated above, each product purchased (or sold) by a client is an

individual agreement made between that client and CBS as principal and is not transferable, negotiable or assignable to or with any third party.

## **7. *How are the CBS CFD products traded?***

CBS provides an online trading platform which enables clients to trade in our CFD products i.e. clients are provided direct access to CFD quotes over the internet.

CFD trades below our auto execution limit can be executed immediately on the Trading Platform at the quoted price. Our state-of-the-art technology allows us to maintain a strict, dependable the-price-you-see is the-price-you-pay principle when you click to buy or sell. Trades above our auto execution limit must first be verified by a CBS representative which normally takes just a few seconds.

CFD positions can be opened and closed through the CFD Trade module in the *Falcon Trader*:

1. Enter the company or index ticker symbol, company name or select it from the exchange tree.
2. Select the number of shares you want to trade.
3. Click Enable.
4. Click Buy or Sell to trade at the price displayed.

## **8. *Realised and Unrealised Profits and Losses***

Profits and/or losses are realised if both the buy and the sell side of the transaction are complete. The profit (or loss) is the difference between the value when the CFD contract is entered into compared to the CFD contract value when the contract is closed. Profits and/or losses are unrealised if only one side of the transaction has been completed.

## **9. *Margin Obligations***

All CFD products will be subject to margin obligations. Accordingly, the client is responsible to meet all margin payments required by CBS.

Initial Margin means the initial deposit (an up front payment) of funds required by CBS to cover the risk to CBS and as security for the client's obligations. Initial margin obligations are a percentage of the face value of the contract.

Margins are determined by CBS in its absolute discretion and can vary from day to day. Currently, the Initial Margin obligations are as follows:

- In the case of security CFD's, you must maintain funds in your account to cover the initial margin which is 10% of the face value of the CFD contract.
- In the case of index CFD's, you must maintain funds in your account to cover the initial margin which is 5% of the face value of the CFD contract.

Furthermore, additional margin (also known as variation margin) may be payable in the event of adverse market movements to keep the position open.

Positions will be monitored by CBS on a mark to market basis to account for any market movements. If the value of the position moves against you then you will be required to "top up" the initial margin and, if so, you will be subject to a margin call i.e. to pay additional margin or alternatively to close the position in order to reduce your initial margin to a level acceptable to CBS. The variation margin liability is incurred at the time of the occurrence of any movement in the market that results in an unrealised loss, regardless as to when the call to pay is made by CBS on you.

You must be in a position to fund such requirements at all times. Initial and variation margin must be paid immediately after the call. The general policy of CBS is that payment of the call must be received within 24 hours of the call although in times of extreme price volatility this may mean as little as 1 hour. If you fail to meet any margin call then CBS may in its absolute discretion and without creating an obligation to do so, close out, without notice, all or some of your open positions (or transactions) and deduct the resulting realised loss from the initial margin (and other excess funds held in your account with CBS. Notwithstanding, any losses resulting from CBS closing your position will be debited to your account and may require you to provide additional funds to CBS.

The products offered by CBS can be highly volatile and you should ensure that you are always contactable by CBS. If you are unable to be contacted for the purpose of CBS making the call, we may close out your derivatives contracts without actually speaking to you.

Margin calls will be made on net account basis i.e. should you have several open positions, then margin calls are netted across the group of open transactions. This means that the unrealised profits of one transaction can be used or applied as initial or variation margins or to offset the unrealised losses of another transaction.

You will only be allowed to deal in and maintain positions on the basis of cleared funds being provided for your margin obligations or your net balance is in credit. Margin calls can be made by CBS at any time and you are responsible for ensuring that they are met.

CBS has the right to limit the size of your open positions, whether on a net or gross basis under any appropriate circumstances as determined by CBS. CBS also has the right to refuse any request made by you to place an order to establish a position at any time at CBS's discretion without having to give you notice.

## ***10. Closing a CBS CFD product***

CFD contracts do not have an expiry date. They remain open until they are closed in accordance with the terms of the Client Agreement Form. On the day that the CFD is closed, CBS will calculate the remaining payment rights and obligations to reflect movements in the CFD contract value since the previous business close (including interest and other credits/debits).

However, there are certain circumstances under which the position will be closed, irrespective of the client's wishes.

- (a) *Takeover of the company underlying the security CFD* - At times, companies on which open CFD's are based will be subject to takeover bids, either agreed or hostile. Positions in CFD products may remain open or be established during this time. However, any open position will be closed out at the prevailing market price one day prior to the last day the shares are quoted in their existing form.
- (b) *The client's failure to meet margin requirements* - Failure to meet your margin obligations may result in the position being closed at the prevailing market price at CBS absolute discretion, irrespective of your view. Any shortfall will be deducted from your account held with CBS and any resulting balance will be credited to your account.

## ***11. Confirmation of Transactions***

Once you have entered an order into *Falcon Trader*, the system will automatically report the main elements of that order to you in a 'pop up' window. This is a "preliminary notification" and will enable you to print a confirmation of the primary data, including the quantity, price and the date and time the order was transmitted to CBS.

We make special mention that the details contained in the 'pop up' window are not designed to comply with Section 1017F of the Corporations Act, but rather as a quick reference point and for your convenience. Once an order has been executed you can obtain a comprehensive trade confirmation by accessing the "Trades Booked" statement online. This is an online report that you can access and print upon demand and highlights all of the particulars concerning the transaction in accordance with Section 1017F of the Corporations Act.

Of course you can also call us directly to check your account balance and any open CFD position.

## **12. Costs of CBS CFD Products**

### *(a) Commission*

Commission is charged on each CFD transaction in much the same way as if you were buying or selling the underlying securities. Commission is charged on a per trade basis as a percentage of the total contract value. The minimum commission charge is \$10 for a CFD transaction with a contract value less than or equal to \$10 000 per denominated currency transaction. Transactions with a value greater than \$10 000 in the respective currency denomination incur commission at between 10%, or by negotiation for non-electronic orders. For example, a CFD transaction with a contract value of AUD \$10,000 will incur a commission fee of \$10.00.

However, as highlighted in section 9 of this Part 4 of our PDS, where you enter a transaction you will be required to pay initial margin and may be required to pay additional margin in the event of adverse market movements against your position. Such payments are not costs but are cleared funds required by CBS to cover our risk and as security for the client's obligations.

The margin amounts are payable into the CBS client trust account and are held, used and withdrawn in accordance with the Corporations Act 2001 requirements and our agreed terms and conditions specified in the Client Agreement Form. In particular, CBS may withdraw funds from the client trust account in order to secure trading facilities to enable it to provide the financial product to you.

### *(b) Interest*

When you buy a CFD, CBS is effectively lending you money. CFD buyers are charged daily interest known as "cost of carry" or "long interest". The rate is the LIBOR rate plus a margin. LIBOR stands for the London Interbank Offered Rate and is the rate of interest at which banks borrow funds from other banks, in marketable size, in the London interbank market. Accordingly, the LIBOR rate is the most widely used benchmark or reference rate for short-term interest rates. We refer you to Section 13 of this Part 4 of our PDS for additional information.

### *(c) Conversion fee*

CFD prices are traded akin to the underlying market (e.g. AUD securities in cents, UK securities in pence, US securities in cents). Trades are always executed in the base currency. Accordingly, you will be charged a "conversion fee" when converting currencies to your Base Currency. This occurs each time there is a conversion to your Base Currency. This is levied at the rate at which the transaction is executed plus or minus 0.5% (depending upon the currency). For example, if your USD position is converted to AUD (your Base Currency) at 0.7275, then a fee of 0.5% will be levied, resulting in the currency being transacted at 0.7225.

### ***13. Interest on Credit and Debit Balances***

Interest is the price paid for the use of money. An interest rate is the ratio of the amount of interest to the amount of money.

#### *(a) Transacting in CFD's*

When you buy a CFD, you are in effect borrowing money to pay for the CFD. You must therefore pay interest on the amount borrowed, so the financing costs on long positions (when you buy CFD's) must be taken into consideration, especially if you hold the CFD for a long period of time. CFD buyers are charged daily interest known as "cost of carry" or "long interest". Accordingly, if you hold a long CFD position overnight you will pay interest on the open position value. The rate is the LIBOR plus 3%.

This value is calculated daily and is the quantity of CFD's you hold multiplied by the closing market price for the underlying security on that day. For example: if you were paying a "long" CFD funding charge of 2% over the LIBOR Rate (which was say 5.50%), you would be paying a funding rate of 7.50% per annum. If the contract was for a 20,000 security CFD and the closing price was \$3.00 per share, the open position value would be \$60,000.00. The "cost of carry" or interest charge would be approximately \$12.33 for every day the contract is maintained ( $\$60,000 \times 7.50\% = \$4,500$  divided by 365).

CFD sellers are deemed to have lent money to CBS and should you decide to hold a "short" CFD position overnight (or longer), CBS would pay you interest on the open position at market value i.e. you would receive daily "short interest" at the benchmark rate (LIBOR) minus 3%. For example: if you were receiving a "short interest" fee of 2% under the LIBOR Rate (which was say 5.50%), you would be receiving an interest rate of 3.50% per annum. If the contract was for 20,000 a security CFD and the closing price was \$3.00 per share, the open position value would be \$60,000.00. The interest received would be approximately \$5.75 for every day the contract is maintained ( $\$60,000 \times 3.5\% = \$2,100$  divided by 365).

No interest is paid or received if you open and close a position in the same day.

#### *(b) Debit and credit balances*

Your credit balances accrue interest (in the particular currency) at the daily interest rate determined by CBS, provided your credit balance is in excess of the minimum amount specified by CBS i.e. after all margins in relation the positions have been taken into account and you are an Australian resident for tax purposes. This minimum amount required can be changed at the absolute discretion of CBS and currently stands at AUD \$10,000 (or its equivalent in foreign currency terms). The interest rate paid is 3% below the LIBOR rate. This can be negotiated.

At the end of each month, all interest due in respect of your foreign currency holding is calculated and then converted to your base currency and credited to your account. To reiterate, interest is calculated daily, but reported monthly. Any conversion will be at the exchange rate quoted by CBS.

We note that the following do not accrue any interest:

- the funds used to meet your margin obligations when you open a position; and
- unrealised profits i.e. gains on open positions.

In the event your account balance becomes a debit CBS will charge you interest at 3% above the LIBOR rate. Provided you meet on calls for variation margin it is unlikely your account will go into debit. However, in the event of a major market movement against your position and you fail to meet a call for variation margin CBS may exercise its right to close your position. If the realised loss is greater than the amount you have deposited with CBS then your account will go into debit.

In summary:

1. Credit Balance - Interest **is paid on the credit balance** of your account (free equity) after all fees, commissions, variation and initial margins in relation to your account have been deducted from your account. Interest receivable (short positions) = LIBOR - 3% on the borrowed funds.
2. Debit Balance - Interest **is charged on the debit balance** of your account after all fees, commissions, variation and initial margins in relation to your account have been deducted from your account. Interest payable (long positions) = LIBOR + 3% on the borrowed funds

Both debit and credit interest are calculated daily but posted monthly.

## 14. CFD Examples

Assuming you buy 1000 BHP CFD's which requires a 10% initial margin and incurs a 0.25% commission and the LIBOR rate being 5.5%, resulting in a daily interest charge of 7.5%.

### Example # 1 Profitable Trade

	<i>[Insert name of WLP]</i>	Stockbroker
<b>Open Position i.e. Buy (long) BHPCFD</b>		
Buy Quantity	1,000.00	1,000.00
Price	\$14.75	\$14.75
Contract Value	\$14,750.00	\$14,750.00
Initial Margin (10%)	\$(1,475.00)	\$0.00
Commission (0.25%)	\$(36.88)	\$(36.88)
GST	\$0.00	\$(3.69)
Initial Outlay	\$(1,511.88)	\$(14,709.44)
Assuming you close the position 5 days later at \$16.00		
Quantity	1,000.00	1,000.00
Price	\$16.00	\$16.00
Contract Value	\$16,000.00	\$16,000.00
Gross Profit	\$1,250.00	\$1,250.00
Commission (0.25%)	\$(40.00)	\$(40.00)
GST	\$0.00	\$(4.00)
Cost of Carry i.e. Interest cost (LIBOR rate + 2%)	\$(15.15)	\$0.00
Net Profit	\$1,157.97	\$1,165.44
Return on Outlay	79%	8%

## Example # 2 Losing Trade

	<i>[Insert name of WLP]</i>	Stockbroker
<b>Open Position i.e. Buy (long) BHPCFD</b>		
Buy Quantity	1,000.00	1,000.00
Price	\$14.75	\$14.75
Contract Value	\$14,750.00	\$14,750.00
Initial Margin (10%)	\$(1,475.00)	\$0.00
Commission (0.25%)	\$(36.88)	\$(36.88)
GST	\$0.00	\$(3.69)
Initial Outlay	<u>\$(1,511.88)</u>	<u>\$(14,709.44)</u>
Assuming you close the position 5 days later at \$14.00		
Quantity	1,000.00	1,000.00
Price	\$14.00	\$14.00
Contract Value	\$14,000.00	\$14,000.00
Gross Loss	\$(750.00)	\$(750.00)
Commission (0.25%)	\$(35.00)	\$(35.00)
GST	\$0.00	\$(3.50)
Cost of Carry i.e. Interest cost (LIBOR rate + 2%)	<u>\$(16.44)</u>	<u>\$0.00</u>
Net Loss	<u>\$(838.31)</u>	<u>\$(829.06)</u>
Return on Outlay	57%	6%

### 15. *Significant Benefits of the CBS CFD Products*

Although there are risks in dealing in CBS CFD products (refer section 16 of this Part 4 of our PDS), there are also significant benefits of using CFD products offered by CBS whether you are a speculator or a hedger using the CFD products as a risk management tool. These benefits are as follows:

#### (a) **Cost Effective**

- **No Goods and Services Tax (“GST”) & low commissions** - No GST is incurred when trading a CFD as the client is not physically buying the shares, providing a large saving compared trading traditional securities. Furthermore, the commission on trading CFD's is typically much lower than trading securities with a traditional stockbroker.

- **Leverage** - You can enter a position in a CFD contract without having to deposit the full underlying contract value. Rather you deposit a margin as initial collateral.
- **Profit from falling as well as rising markets** - Unlike physical assets, CFD's can be sold short with ease, without owning or borrowing the underlying instrument. Furthermore, there is no cumbersome "uptick" rule as is common on many large stock exchanges and you can therefore enter a trade as quickly as if it was a buy trade. Other methods of shorting shares are often inconvenient and expensive i.e. you don't need to worry about borrowing stock or paying financing costs for selling.

**(b) Simple**

- **Speed & quality of execution** - Buying and selling CFD's is similar to buying or selling securities. A CFD transaction will typically be executed at the same speed and price as a simultaneous and identical securities transaction.
- **Mirrors underlying performance** - The value of an open security or stock index CFD position is based on the market price of the underlying security or relevant stock index.
- **Deal at a tradable price** - CBS will quote you a price and you can deal immediately.

**(c) Flexibility**

- **Trade world markets** – CBS offers CFD trading in various Stock Exchanges and stock indices world wide (refer Part 5 of the PDS for a complete listing of the various Stock Exchanges and stock indices). Security CFD's are also available on smaller stocks on a case-by-case basis.
- **Trade by phone or internet** - CBS provides an online trading platform, enabling clients to trade in CFD products over the internet.
- **Hold your position for as long as you like** - Unlike other derivative products (such as an option or futures contract), a CFD has no settlement date. It is an open-ended contract allowing you to decide when to close your position (subject to certain limitations described in section 10 of this Part 4 of our PDS).

- **Access to the markets at any time** - When using CBS you gain access to a highly advanced and multi-leveled system which is active and provides you the opportunity to trade 24 hours a day from Sunday evening (20:00 GMT) to Friday evening (22:00 GMT). This gives you a unique opportunity to react instantly to breaking news that is affecting the markets.

**(d) Risk Management**

- **You can trade with less risk** – Stop losses orders can be used to attempt to limit the amount which can be lost on a position. Stop loss orders are designed to either optimise your exposure to the market or limit your loss by instructing that trades be executed at pre-determined price levels. Stop losses are instructions to close out an open position if a market trades through a specific level. We note that stop losses are not guaranteed and are direct a result of market volatility and liquidity. Please see our Terms and Conditions which are included in our Client Agreement Form.
- **Hedge market exposure** – CFD's can be used as an efficient risk management tool e.g. in anticipation of a fall in a share price, a short position in a security CFD can remove or reduce risk without loss of voting rights. Alternatively, if you are worried about the market going down in the short term it may be cheaper and more efficient to sell an index CFD rather than sell the entire portfolio.

**(e) Financial Management**

- **Full control over your account and positions** - With CBS, you are able to control your costs and risks. At CBS we believe your financial activities should be under your full control.

**16. Significant Risks Explained**

You should be aware that trading in the CFD products offered by CBS involves risks. It is important that you carefully consider whether trading our products is appropriate for you in light of your investment objectives, financial situation and needs.

The following is a description of the significant risks associated with trading CFD products offered by CBS:

- (a) **Derivatives Risks Generally** - Derivative markets can be highly volatile. Accordingly, the risk of loss in trading in derivatives contracts can be substantial. You should carefully consider whether our products are appropriate for you in light of your personal and financial circumstances. In deciding whether or not you will become involved in trading derivatives, you should be aware of the following matters:

- You could sustain a total loss of the amount that you deposit with CBS to establish or maintain a contract.
- If the derivatives market moves against your position, you will be required to immediately deposit additional funds as additional margin in order to maintain your position i.e. to “top up” your account. Those additional funds may be substantial. If you fail to provide those additional funds CBS may close you positions. You will be liable for any shortfall resulting from that closure.
- Under certain market conditions, it could become difficult or impossible for you to manage the risk of open positions by entering into opposite positions in another contract or close existing positions.
- The CFD products offered by CBS involve risk. However, the placing of contingent orders such as a stop loss order will potentially limit your loss. A stop-loss order shall be executed at or near the price requested by the client but is not guaranteed at the exact level. Accordingly, stop-loss orders may not limit your losses to the exact amounts specified. A transaction of this nature shall be executed as soon as the CFD price is either identical to the order given by the client, or indicates an identical amount of loss, in dollar terms, requested by the client.
- A high degree of leverage is obtainable in trading the CFD products offered by CBS because of the small margin requirements which can work against you as well as for you. The use of leverage can lead to large losses as well as large gains. The impact of leverage is that even a slight fluctuation in the market could mean substantial gains when these fluctuations are in your favour, but that could also mean considerable losses if the fluctuations are to your detriment.
- As CBS is the market maker i.e. the issuer of the CFD products described in this Part 4 of our PDS, you are exposed to the financial and business risks, including credit risk, associated in dealing with CBS.

**(b) Market Volatility** – the underlying security markets on which the CFD markets are based are subject to many influences which may result in rapid fluctuations and reflect unforeseen events or changes in conditions with the inevitable consequence being market volatility.

Given the potential levels of volatility in the markets, it is therefore recommended that you closely monitor your positions with CBS at all times. The underlying security markets on which the CFD markets are based are highly volatile and are very difficult to predict. Due to such volatility, **no product offered by CBS may be considered as a safe trade.**

Under certain conditions it could become difficult or impossible for you to close a position. For example, this can happen when there is a significant change in prices over a short period. Lack of liquidity in CFD markets due to extreme volatility or uncertainty of trading in those markets may also affect the ability of CBS to open or close a position thereby reducing profits or increasing losses.

However, CBS offers clients a way of managing volatility by working orders. Clients can potentially limit downside risk by the use of stop loss orders where CBS will enter into an opposite position to your existing position with you if the CFD price reaches a particular level. In addition, clients may also use limit orders which allow clients the opportunity to benefit from favourable upside market movements.

You should be aware that if you acquire a CFD product offered by CBS for trading or speculative purposes, you will be fully exposed to movements in the price of the CFD which is linked to the movements in price of the underlying security or index.

The risk of loss will be increased where you borrow to acquire the product as the total loss which may be incurred will be the loss on the CFD product together with the amount you borrowed.

- (c) **Counterparty Risk** - Given you are dealing with CBS as counterparty to every transaction, you will have an exposure to us in relation to each transaction. This is common to all OTC financial market products.

You are reliant on CBS's ability to meet its counterparty obligations to you to settle the relevant contract. CBS may choose to limit this exposure by entering into opposite transactions as principal in the wholesale market in relation to its exposures with clients. In addition, CBS must comply with the financial requirements imposed under its AFS Licence.

- (d) **Foreign Exchange Risk** - Your account is maintained in the currency you have nominated, that is, the base currency. Where you deal in a CFD product that is denominated in a currency other than the base currency, all initial and variation margins, profits, losses, interest rate payments/receipts and financing credits and debits in relation to that product are calculated using the currency in which the product is denominated.

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

Upon closing a position that is denominated in a currency other than the base currency of your account, you will be able to request that the foreign

currency balance be converted to the base currency of your account. Any conversion will be at the exchange rate quoted by CBS. Until the foreign currency balance is converted to the base currency, fluctuations in the relevant foreign exchange rate may affect the unrealised profit or loss made on the position.

- (e) **Market Information** - CBS may make available to you through one or more of its services, a broad range of financial information that is generated internally or obtained from agents, vendors or partners (“third party providers”). This includes, but is not limited to, financial market data, quotes, news, analyst opinions and research reports, graphs or data (Market Information”).

Market Information provided by us by email or through our website is not intended as advice. CBS does not endorse or approve the Market Information and we make it available to you only as a service for your own convenience. CBS and its third party providers do not guarantee the accuracy, timeliness, completeness or correct sequencing of the Market Information or warrant any results from your use or reliance on the Market Information.

Market Information may quickly become unreliable for various reasons including, for example, changes in market conditions or economic circumstances. Neither CBS nor the third party providers are obligated to update any information or opinions contained in any Market Information and we may discontinue offering Market Information at any time without notice.

- (f) **Systems Risk** - CBS relies on a number of technology solutions to provide you with efficient CFD services i.e. CBS has outsourced the operation of this trading platform to a third party, namely Saxo Bank. In this regard CBS relies upon this third party to ensure the systems are updated and maintained.

A disruption to the CBS online trading platform may mean you are unable to trade in a CFD product offered by CBS when desired and you may suffer a loss as a result. An example of disruption includes the “crash” of our computer based trading system.

- (g) **Use and Access to the Website** - You shall be responsible for providing and maintaining the means by which to access the CBS website, which may include without limitation a personal computer, modem and telephone or other access line.

While the internet and the World Wide Web are generally reliable, technical problems or other conditions may delay or prevent you from accessing the CBS website. If you are unable to access the internet and thus, the CBS

trading platform, it will mean you may be unable to trade in a CFD product offered by CBS when desired and you may suffer a loss as a result.

Furthermore, in unforeseen and extreme market situations, *CBS* reserves the right to suspend the operation of our online trading platform or any part or sections of it. In such an event, *CBS* 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.

*CBS* may impose volume limits on client accounts, at its sole discretion.

- (h) **Clients' Monies** - Funds deposited with *CBS* are deposited into our client trust account i.e. segregated from *CBS*'s money and held and invested in accordance with the Client Agreement Form and in accordance with the Corporations Act 2001.

For money deposited in our client trust account, the client is required to acknowledge as part of our Terms and Conditions as contained in our Client Agreement Form that:

- individual client accounts are not separated from each other;
- all clients' funds are co-mingled into the one trust account;
- the client money provisions may not insulate any individual client's funds from a default in our client trust account. Such a default may arise from any clients' trading;
- assets in the client trust account belonging to non-defaulting clients are potentially at risk, even though they did not cause the default;
- *CBS* is entitled to withdraw, deduct or apply any amounts payable to *CBS* under the terms of this PDS or the Client Agreement Form or the FSG or the Corporations Act 2001;
- *CBS* may pay, withdraw, deduct or apply any amounts from the client trust account to use in its business i.e. in order to secure trading facilities to enable *CBS* to provide the financial product to you.

- (i) **Risk Capital** - 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.
- (j) **Interest** - CFD buyers pay daily long interest for as long as they hold their positions. This may make CFD's unsuitable for long-term investors.
- (k) **Superannuation Funds** - It should be noted that complying superannuation funds are subject to numerous guidelines and restrictions in relation to their investment activities which are contained in the Superannuation Industry Supervision Act 1993, the regulations made under that Act and circulars issued by past and present regulators of superannuation funds including the Insurance and Superannuation Commission, the Australian Prudential Supervisory Authority and the Australian Taxation Office.

Without being an exhaustive list, following are some of the issues that should be considered by a Trustee of a complying superannuation fund:

- Prohibitions on borrowing and charging assets and whether dealing in CBS CFD products would breach those borrowing and charging prohibitions;
  - The purpose of dealing in CBS CFD products in the context of a complying superannuation fund's investment strategy as well as the fiduciary duties and other obligations owed by Trustees of those funds;
  - The necessity for a Trustees of a complying superannuation fund to be familiar with the risk involved in dealing in CBS CFD products and the need to have in place adequate risk management procedures to manage the risks associated in dealing in those products; and
  - The consequences of including adverse taxation consequences if a superannuation fund fails to meet the requirements for it to continue to hold complying status.
- (l) **Other** - Changes in taxation and other laws, government, fiscal, monetary and regulatory policies may have a material adverse effect on your dealings in the CFD products offered by CBS.

## ***17. Product Specific Acknowledgements***

You are required to acknowledge to CBS by way of the Client Agreement Form that you:

- Understand that transactions between you and CBS do not take place on a regulated exchange and are not covered by the protections for exchange traded contracts arising under the Corporations Act, the operating or clearing rules of a regulated exchange (such as the Australian Stock Exchange Limited).
- You may lose all of your initial margin and any other moneys credited to your account (excess cash, variation margins, realised profits). Calls for margin payments could be for substantial sums. If a margin call is not met by the time for payment, CBS will be entitled to close out (or liquidate) all open transactions. Generally payments should be made within 24 hours of the time the call was made but, in times of extreme price volatility payments may be required in as little as 1 hour from the time of the call.
- Even if a margin call is promptly met, if the market is volatile CBS may make one or more further margin calls, in its absolute discretion. If a margin call is not met immediately, CBS will be entitled to close out all open transactions.
- There is no limit on the amount of margin which may be called.
- Under market conditions from time to time, it could be difficult or impossible to close out a transaction at a price that would confine the loss sustained by you within the amount of your account. Your loss on a transaction could be very substantial.
- Derivatives such as CFD products can be very volatile. You may incur large losses in short periods of time and may be unable to limit your losses. Your losses may not be limited to the funds in your account or amount of margin paid by you.
- Stop-loss orders may not always be filled and, in any event, may not limit your losses to the amounts specified.
- Transactions are leveraged. This can lead to large losses, disproportionate to your initial deposit, margin payments or other money credited to your account.
- CBS does not enter into any transaction by way of gaming or wager.

## ***18. Trading Hours***

Market opening times for non Australian markets are given in terms of GMT time. FalconTrader provides you the opportunity to trade 24 hours a day from Sunday evening (20:00 GMT) to Friday evening (22:00 GMT).

CFD's have no fixed maturity date and therefore, subject to meeting all your obligations, positions may normally be closed at any time during the FalconTrader trading hours relevant to the underlying market in question.

We make special mention that day orders expire at 22:00 GMT (21:00 GMT during daylight saving). This is equivalent to 5:00 pm New York time. This means that all day orders that have not been executed by 22:00 GMT lapse and you need to provide CBS with a new order.

## ***19. Taxation Implications***

Trading in CFD products offered by CBS has the potential for generating substantial profits and the potential for generating substantial losses. The tax implications of such profits or losses may be significant depending on the personal circumstances of the individual client. CBS does not provide tax advice and we recommend you seek your own professional tax advice and the impact any profits or losses generated from trading may have on your overall tax position.

## ***20. Cooling-off Arrangements***

There are no cooling-off arrangements for the CFD products offered by CBS. This means that when you enter a transaction with CBS you do not have a right to return the product and thus, you do not have the right to request CBS to repay the money you have paid to acquire the product. Should you change your mind after entering into a CFD product with CBS, you should close out your position by taking an opposite transaction.