

# STRUCTURED FOREIGN EXCHANGE OPTIONS (STRUCTURED OPTIONS)

## PRODUCT DISCLOSURE STATEMENT



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### Table of contents

1. Purpose	page 2
2. Issuer	page 2
3. What is a Structured Option?	page 2
4. How does a Structured Option work?	page 3
5. Our Structured Options	page 3
6. Costs of a Structured Option	page 13
7. Benefits of Structured Options	page 13
8. Risks associated with Structured Options	page 14
9. Terms and Conditions and other documentation	page 14
10. Credit requirements	page 15
11. Instructions, Confirmations and telephone conversations	page 16
12. Dispute resolution	page 16
13. Privacy	page 17
14. Taxation	page 17
15. Key terms	page 17
16. Updates relating to this PDS	page 19
17. Contact details	page 19

## 1. Purpose

This Product Disclosure Statement (PDS) is an important document containing information about Travelex's foreign exchange Structured Options products. Travelex is providing you with this PDS so that you receive important information about its Structured Options products including their benefits, risks and costs.

The purpose of this PDS is to provide you with sufficient information for you to determine whether a Structured Options product meets your needs. This PDS will also allow you to compare the features of other products that you may be considering.

Please read this PDS carefully before purchasing a product. In the event that you enter into a Structured Options product you should keep a copy of this PDS along with any associated documentation for future reference.

The information set out in this PDS is general in nature and has been prepared without taking into account your objectives, financial situation or needs. Before dealing in Structured Options you should consider whether it is appropriate, having regard to your own objectives, financial situation and needs. This PDS does not constitute financial advice or a financial recommendation.

A Structured Option may be suitable for you if you have a very good level of understanding of foreign exchange contracts and markets. **If you are not confident about your understanding of these markets, we strongly suggest you seek independent advice before making a decision about this product.**

If you have any questions or need more information, please contact Travelex or refer to our website [www.travelexbusiness.com/au](http://www.travelexbusiness.com/au).

## 2. Issuer

Travelex GBP Australia Pty Limited is the Issuer of this financial product.

This PDS has been prepared by Travelex GBP Australia Pty Limited (Travelex) ABN 24 150 129 749

AFSL Number 404092

Further information about Travelex and the Travelex group of companies can be found at [www.travelexbusiness.com/au](http://www.travelexbusiness.com/au)

## 3. What is a Structured Option?

A Structured Foreign Exchange Option is a term that describes a group of foreign exchange products that have been developed as foreign exchange risk management alternatives to Forward Exchange Contracts and Vanilla Foreign Exchange Options.

A Structured Option is an agreement to exchange a specified amount of one currency for another currency at a Foreign Exchange Rate determined in accordance with the mechanisms set out in the structure at an agreed time (Expiry Time) on an agreed date (Expiry Date). The exchange of currencies generally then takes place two (2) clear business days after the Expiry Date (Value Date).

The mechanism(s) for determining the applicable Foreign Exchange Rate and other conditions of a Structured Option will depend on the particular product that you acquire. Travelex currently offers ten Structured Options products; the following information describes how the Foreign Exchange Rate and conditions are determined in relation to each of these products.

## 4. How does a Structured Option work?

A Structured Option is created through the concurrent sale and purchase of two or more Call Options and/or Put Options. In any structure you may be both 'the Buyer' of an option (i.e. you are buying an option from Travelex) and 'the Seller' of an option (i.e. you are selling an option to Travelex). Depending on the Structured Option that is created there may be certain conditions attached to one or more of the options within the structure.

## 5. Our Structured Options

The examples that are used within the description of each Structured Option product below are for information purposes only and use rates and figures that we have selected to demonstrate how each product works. In order to assess the merits of any particular Structured Option you should use the actual rates and figures quoted at the relevant time.

### 5.1 Zero Cost Collar

#### General Product Information

The Zero Cost Collar is a Structured Option which allows you to protect against the risk that the Spot Exchange Rate will be less favourable than a nominated foreign exchange rate (the "Strike Rate"). It also gives you the ability to participate in favourable movements in the Spot Exchange Rate between the Strike Rate and a Participation Rate.

#### How a Zero Cost Collar Works

A Zero Cost Collar is structured by entering into two concurrent options. In the first you buy a Put Option (an option to sell) from Travelex at the Strike Rate. In the second you sell a corresponding Call option (an option to buy) to Travelex at the Participation Rate.

A Zero Cost Collar always provides you with protection at a specified rate.

#### Example of a Zero Cost Collar

An Australian importer needs to buy USD100,000 in 6 months time. The current Spot Rate is 0.6500 and the Forward Exchange Rate is 0.6425.

The importer enters into a Zero Cost Collar with the following terms:

Strike Rate:	0.6000
Participation Rate:	0.6700
Expiry Date:	6 months

The possible outcomes on expiry are as follows:

- If the Spot Rate is below the Strike Rate at expiry the importer will exercise its Put Option and buy USD at 0.6000
- If the Spot Rate is above the Participation Rate at expiry Travelex will exercise its Call Option and the importer will be obligated to buy USD at 0.6700
- If the Spot Rate lies between the Strike Rate and the Participation Rate it will be more advantageous for the importer to buy USD at the Spot Rate on the day; alternatively the importer may choose to do nothing as there is no obligation on either party.

#### Advantages of a Zero Cost Collar

- Ability to participate in favourable exchange rate movements to the Participation Rate
- Protection at all time with a known worst case exchange rate.
- No premium payable.

### Disadvantages of a Zero Cost Collar

- Participation is capped at a certain rate.
- If the Spot Rate on the Expiry Date is more advantageous than the Participation Rate you will be obligated to trade at a rate that is less advantageous than the Spot Rate on the Expiry Date.
- If the Spot Rate exceeds the Participation Rate prior to the Expiry Date Travelex may require you to make a Margin Call to secure your out-of-the-money position. For more information on margin calls please see section 10 below and your Terms and Conditions.

## 5.2 Participating Forward

### General Product Information

The Participating Forward is a Structured Option which allows you to protect against the risk that the Spot Exchange Rate will be less favourable than a nominated foreign exchange rate (the "Strike Rate"). It also gives you the ability to participate in favourable movements in the Spot Exchange Rate by allowing you to trade a portion of your exposure at a favourable spot rate.

### How a Participating Forward Works

A Participating Forward is structured by entering into two concurrent options. In the first you buy a Put Option (an option to sell) from Travelex at the Strike Rate. In the second you sell a Call Option (an option to buy) to Travelex at the Strike Rate. The Call Option that you sell will be for a percentage of the contract amount of your Put Option (the "Participation Ratio")

### Example of a Participating Forward

An Australian importer needs to buy USD100,000 in 6 months time. The current Spot Exchange Rate is 0.6500 and the Forward Exchange Rate is 0.6425.

The importer enters into a Participating Forward with the following terms:

Strike Rate:	0.6300
Participation Ratio:	2:1
Expiry Date:	6 months

The possible outcomes on expiry are as follows:

- If the Spot Rate is below the Strike Rate at expiry the importer will exercise its Put Option and buy all the USD at 0.6300
- If the Spot Rate is above the Participation Rate at expiry Travelex will exercise its Call Option and the importer will be obligated to buy 50% of the USD at 0.6300. The importer will then be able to buy the remaining USD at the more favourable Spot Rate.

### Advantages of a Participating Forward

- There is the ability to partially participate in favourable exchange rate movements.
- There is protection at all time with a known worst case exchange rate.
- No premium is payable.

### Disadvantages of a Participating Forward

- Part of your exposure must be traded at the Strike Rate on expiry. If the Spot Rate on the Expiry Date is more advantageous than the Strike Rate you will be obligated to trade at a rate that is less advantageous to you.
- If the Spot Rate exceeds the Strike Rate prior to the Expiry Date Travelex may require you to make a Margin Call to secure your out-of-the-money position.  
For more information on margin calls please see Section 10 below and your Terms and Conditions.

## 5.3 Knock Out Forward

### General Product Information

The Knock Out Forward is a Structured Option that provides cover at a certain exchange rate provided that a specified exchange rate (the "Knock Out Rate") does not trade in the spot market before the Expiry Date; if this occurs the contract ceases to exist. A Knock Out Forward gives you an enhanced exchange rate relative to a comparative Forward Exchange Contract.

### How a Knock Out Forward Works

A Knock Out Forward is structured by entering into two concurrent options. In the first you buy a Put Option with a Knock Out Rate (an option to sell that ceases to exist if the Spot Rate trades at or outside the knock Out Rate prior to the Expiry Date) from Travelex at the Strike Rate. In the second you sell a corresponding Call Option with a Knock Out Rate (an option to buy that ceases to exist if the Spot Rate trades at or outside the Knock Out Rate prior to the Expiry Date) to Travelex at the Strike Rate.

### Example of a Knock Out Forward

An Australian importer needs to buy USD100,000 in 6 months time. The current Spot Exchange Rate is 0.6500 and the Forward Exchange Rate is 0.6425.

The importer enters into a Knock Out Forward with the following terms:

Strike Rate:	0.6800
Knock Out Rate:	0.5990
Expiry Date:	6 months

The possible outcomes on expiry are as follows:

- If the Knock Out Rate has not been triggered and the Spot Rate is less advantageous than the Strike Rate the importer will exercise its Put Option and purchase USD100,000 at 0.6800; if the Spot Rate is more advantageous than the Strike Rate Travelex will exercise its Call Option and the importer will be obligated to purchase USD100,000 at 0.6800
- If the Knock Out Rate has been triggered at any time between the trade date and the Expiry Date both options cease to exist and there is no obligation on either party.

### Advantages of a Knock Out Forward

- A Knock Out Forward provides an enhanced exchange rate relative to a comparative Forward Exchange Contract.
- No premium is payable.

### Disadvantages of a Knock Out Forward

- If the Knock Out Rate is triggered before the Expiry Date, you can be left with no foreign exchange cover and may potentially be transacting at a less favourable exchange rate.
- If the Spot Rate is trading at a rate that is more advantageous than the Strike Rate on the Expiry Date (and the Knock Out Rate has not been triggered) you will be obligated to trade at a rate that is less advantageous than the Spot Rate on that day.
- If the Spot Rate exceeds the Strike Rate prior to the Expiry Date Travelex may require you to make a margin call to secure your out of the money position. For more information on margin calls please see Section 10 below and your Terms and Conditions.

## 5.4 Knock Out Forward (with protection)

### General Product Information

The Knock Out Forward (with protection) is a Structured Option which allows you to protect against the risk that the Spot Exchange Rate will be less favourable than a nominated foreign exchange rate (the "Strike Rate"). It also gives you the ability to participate in favourable movements in the Spot Exchange Rate provided that a Knock Out Rate is traded during the term of the structure.

### How a Knock Out Forward (with protection) Works

A Knock Out Forward (with protection) is structured by entering into two concurrent options. In the first you buy a Put Option from Travelex at the Strike Rate. In the second you sell a Call Option with a Knock Out Rate (an option to buy that ceases to exist if the Spot Rate trades at or outside the Knock Out Rate prior to the Expiry Date) to Travelex at the Strike Rate.

### Example of a Knock Out Forward (with protection)

An Australian importer needs to buy USD100,000 in 6 months time. The current Spot Exchange Rate is 0.6500 and the Forward Exchange Rate is 0.6425.

Strike Rate	0.6250
Knock Out Rate	0.5800
Expiry Date	6 months

The possible outcomes on expiry are as follows:

- If the Knock Out Rate has not been triggered Travelex will exercise its Call Option and the importer will be obligated to purchase USD100,000 at 0.6250
- If the Knock Out Rate has been triggered and
  - The Spot Rate is less advantageous than the Strike Rate the importer will exercise its Put Option and purchase USD100,000 at 0.6250;
  - If the Spot Rate is more advantageous than the Strike Rate the importer may buy USD at the Spot Rate on the day; alternatively they may choose to do nothing as there is no obligation on either party

#### **Advantages of a Knock Out Forward (with protection)**

- Ability to participate in favourable exchange rate movements if the Knock Out Rate is triggered.
- Protection at all time with a known worst case exchange rate.
- No premium payable.

#### **Disadvantages of a Knock Out Forward (with protection)**

- The Strike Rate will be less advantageous than the rate applicable to a comparable Forward Exchange Contract.
- If the Spot Rate on the Expiry Date is more advantageous than the Strike Rate and the Knock Out Rate has not been triggered you will be obligated to trade at a rate that is less advantageous than the Spot Rate on the Expiry Day.
- If the Spot Rate exceeds the Strike Rate prior to the Expiry Date Travelex may require you to make a Margin Call to secure your out-of-the-money position. For more information on margin calls please see section 10 below and your Terms and Conditions.

### **5.5 Knock Out Collar**

#### **General Product Information**

The Knock Out Collar is a Structured Option which gives you limited protection against the risk that the Spot Exchange Rate will be less favourable than a nominated foreign exchange rate (the “Strike Rate”) and the ability to participate in favourable movements in the Spot Exchange Rate between the Strike Rate and a Participation Rate. The protection that it provides and the ability to participate in favourable movements is contingent upon a specified exchange rate (the “Knock Out Rate”) not trading in the spot market before the Expiry Date; if this occurs the contract ceases to exist. A Knock Out Collar gives you an enhanced exchange rate relative to a comparative Zero Cost Collar.

#### **How a Knock Out Collar Works**

A Knock Out Collar is structured by entering into two concurrent options. In the first you buy a Put Option from Travelex with a Knock Out Rate (an option to sell that ceases to exist if the Spot Rate trades at or outside the Knock Out Rate prior to the Expiry Date) at the Strike Rate. In the second you sell a Call Option to Travelex with a Knock Out Rate (an option to buy that ceases to exist if the Spot Rate trades at or outside the Knock Out Rate prior to the Expiry Date) at the Participation Rate.

#### **Example of a Knock Out Collar**

An Australian importer needs to buy USD100,000 in 6 months time. The current Spot Exchange Rate is 0.6500 and the Forward Exchange Rate is 0.6425.

Strike Rate	0.6600
Participation Rate	0.6900
Knock Out Rate	0.5990
Expiry Date	6 months

The possible outcomes on expiry are as follows:

- If the Knock Out Rate has not been triggered prior to the Expiry Date:
  - If the Spot Rate is less advantageous than the Strike Rate the importer will exercise its Put Option and purchase USD100,000 at 0.6600;
  - If the Spot Rate is more advantageous than the Participation Rate Travelex will exercise its Call Option and the importer will be obligated to purchase USD100,000 at 0.6900;
  - If the Spot Rate lies between the Strike Rate and the Participation Rate it will be more advantageous for the importer to buy USD at the Spot Rate on the day. Alternatively they may choose to do nothing as there is no obligation on either party.
- If the Knock Out Rate has been triggered at any time between the trade date and the Expiry Date both options cease to exist and there is no obligation on either party.

#### **Advantages of a Knock Out Collar**

- A Knock Out Collar provides an enhanced exchange rate relative to a comparative Zero Cost Collar.
- Provided that the Knock Out Rate does not trade you have the ability to participate in favourable exchange rate movements up to the Participation Rate.
- No premium is payable.

#### **Disadvantages of a Knock Out Collar**

- If the Knock Out Rate is triggered before the Expiry Date, you can be left with no foreign exchange cover and may potentially be transacting at a less favourable exchange rate.
- If the Spot Rate is trading at a rate that is more advantageous than the Participation Rate on the Expiry Date (and the Knock Out Rate has not been triggered) you will be obligated to trade at a rate that is less advantageous than the Spot Rate on that day.
- If the Spot Rate exceeds the Participation Rate prior to the Expiry Date Travelex may require you to make a margin call to secure your out of the money position. For more information on margin calls please see Section 10 below and your Terms and Conditions.

### **5.6 Knock In Forward**

#### **General Product Information**

The Knock In Forward is a Structured Option which allows you to protect against the risk that the Spot Exchange Rate will be less favourable than a nominated foreign exchange rate (the “Strike Rate”) whilst giving you the potential to take advantage of favourable currency movements to a Knock In Rate. If the Spot Rate trades at or above the Knock In Rate at any time before the Expiry Date you will be obligated to trade at the Strike Rate on the Expiry Date.

#### **How a Knock In Forward Works**

A Knock In Forward is structured by entering into two concurrent options. In the first you buy a Put Option from Travelex at the Strike Rate. In the second you sell a Call option with a Knock In Rate (an option to buy contingent upon the Spot Rate trading at or outside the Knock-In Rate in the market before the Expiry Date) to Travelex at the Strike Rate. The Call Option will only come into existence if the Spot Rate trades at or above the Knock In Rate during the term of the Knock In Forward.

#### **Example of a Knock In Forward**

An Australian importer needs to buy USD100,000 in 6 months time. The current Spot Exchange Rate is 0.6500 and the Forward Exchange Rate is 0.6425.

Strike Rate	0.6300
Knock In Rate	0.7100
Expiry Date	6 months

The possible outcomes on expiry are as follows:

- If the Knock In Rate has not been triggered prior to the Expiry Date and:
  - the Spot Rate is less advantageous than the Strike Rate the importer will exercise its Put Option and purchase USD100,000 at 0.6300;
  - the Spot Rate is more advantageous than the Strike Rate it will be more advantageous for the importer to buy USD at the Spot Rate on the day. Alternatively they may choose to do nothing as there is no obligation on either party;
- If the Knock In Rate has been triggered at any time between the trade date and the Expiry Date Travelex will exercise its Call Option and you will be obligated to purchase USD100,000 at 0.6300.

#### **Advantages of a Knock In Forward**

- Ability to participate in favourable exchange rate movements to the Knock In Rate.
- Protection at all time with a known worst case rate.
- No premium payable.

#### **Disadvantages of a Knock In Forward**

- Participation is capped at a certain rate, and you could be trading at a rate that is less advantageous than the comparable Forward Exchange Rate.
- If the Spot Rate trades at or above the Knock In Rate during the term and the Spot Rate is more advantageous than the Strike Rate on the Expiry Date you will be obligated to trade at a rate that is less advantageous than the market rate on that day.
- If the Knock In Rate trades during the term and the Spot Rate continues to exceed the Strike Rate prior to the Expiry Date Travelex may require you to make a margin call to secure your out-of-the money position. For more information on margin calls please see Section 10 below and your Terms and Conditions.

### **5.7 Knock In Collar**

#### **General Product Information**

The Knock In Collar is a Structured Option which allows you to protect against the risk that the Spot Exchange Rate will be less favourable than a nominated foreign exchange rate (the “Strike Rate”) whilst giving you the potential to take advantage of favourable currency movements to a Knock In Rate. If the Knock In Rate trades at any time before the expiry date you are knocked into a collar structure.

#### **How a Knock In Collar Works**

A Knock In Collar is structured by entering into two concurrent options. In the first you buy a Put Option from Travelex at the Strike Rate. In the second you sell a Call Option with a Knock In Rate (an option to buy contingent upon the Spot Exchange Rate trading at or above the Knock In Rate before the Expiry Date) to Travelex at the Participation Rate. This option will only come into existence if the spot rate trades at or outside the Knock In Rate during the term of the Knock In Collar.

#### **Example of a Knock In Collar**

An Australian importer needs to buy USD100,000 in 6 months time. The current Spot Exchange Rate is 0.6500 and the Forward Exchange Rate is 0.6425.

Strike Rate	0.6200
Knock In Rate	0.7150
Participation Rate	0.6600
Expiry Date	6 months

The possible outcomes on expiry are as follows:

- If the Knock In Rate has not been triggered prior to the Expiry Date and:
  - the Spot Rate is less advantageous than the Strike Rate the importer will exercise its Put Option and purchase USD100,000 at 0.6200;
  - the Spot Rate is more advantageous than the Strike Rate it will be more advantageous for the importer to buy USD at the Spot Rate on the day. Alternatively they may choose to do nothing as there is no obligation on either party;
- If the Knock In Rate has been triggered and
  - the Spot Rate is less advantageous than the Strike Rate the importer will exercise its Put Option and purchase USD100,000 at 0.6200
  - the Spot Rate is more advantageous than the Participation Rate Travelex will exercise its Call Option and the importer will be obligated to purchase USD100,000 at 0.6600;
- If the Spot Rate lies between the Strike Rate and the Participation Rate it will be more advantageous for the importer to buy USD at the Spot Rate on the day; alternatively they may choose to do nothing as there is no obligation on either party.

#### **Advantages of a Knock In Collar**

- Ability to participate in favourable exchange rate movements to the Knock In Rate. When the Knock In rate has been traded participation is possible to the Participation Rate
- Protection at all time with a known worst case rate.
- No premium payable.

#### **Disadvantages of a Knock In Collar**

- Participation is capped at a certain rate, and you could be trading at a rate that is less advantageous than the comparable Forward Exchange Contract.
- If the Spot Rate trades at or outside the Knock In Rate during the term and the Spot Rate is more advantageous than the Participation Rate on the Expiry Date you will be obligated to trade at a rate that is less advantageous than the market rate on that day.
- If the Knock In Rate trades during the term and the Spot Rate continues to exceed the Participation Rate prior to the Expiry Date Travelex may require you to make a margin call to secure your out-of-the money position. For more information on margin calls please see Section 10 below and our Terms and Conditions.

### **5.8 Knock In/Knock Out Forward (KIKO)**

#### **General Product Information**

The KIKO is a Structured Option which allows you to protect against the risk that the Spot Rate will be less favourable than a nominated foreign exchange rate (the “Strike Rate”) whilst giving you the potential to take advantage of favourable currency movements to a Knock In Rate. If the Spot Rate trades at or outside the Knock In Rate at any time you will be obligated to trade at the Strike Rate on expiry (unless a Knock Out Rate has also been breached). If the Spot Rate trades at or outside the Knock Out Rate, the client is left with a Vanilla Option and no obligation.

#### **How a Knock In/Knock Out Forward Works**

A KIKO is structured by entering into two concurrent options. In the first you buy a Put Option at the Strike Rate from Travelex. In the second you sell a Call Option with a Knock In Rate and a Knock Out Rate (an option to buy contingent upon the Spot Rate trading at or outside the Knock In Rate that ceases to exist if the spot rate trades at or outside the Knock Out Rate prior to the Expiry Date) at the Strike Rate to Travelex.

#### **Example of a Knock In/Knock Out Forward**

An Australian importer needs to buy USD100,000 in 6 months time. The current Spot Exchange Rate is 0.6500 and the Forward Exchange Rate is 0.6425.

Strike Rate	0.6200
Knock In Rate	0.7125
Knock Out Rate	0.6015
Expiry Date	6 months

The possible outcomes on expiry are as follows:

(i) If the Knock Out Rate has not been triggered:

- If the Knock In Rate has not been triggered prior to the Expiry Date and:
  - the Spot Rate is less advantageous than the Strike Rate the importer will exercise its Put Option and purchase USD100,000 at 0.6200;
  - the Spot Rate is more advantageous than the Strike Rate it will be more advantageous for the importer to buy USD at the Spot Rate on the day. Alternatively they may choose to do nothing as there is no obligation on either party;
- If the Knock In Rate has been triggered Travelex will exercise its Call Option and the importer will be obligated to purchase USD100,000 at 0.6200

(ii) If the Knock Out Rate has been triggered and:

- the Spot Rate is less advantageous than the Strike Rate the importer will exercise its Put Option and purchase USD100,000 at 0.6200;
- the Spot Rate is more advantageous than the Strike Rate it will be more advantageous for the importer to buy USD at the Spot Rate on the day. Alternatively they may choose to do nothing as there is no obligation on either party;

#### **Advantages of a Knock In/Knock Out Forward**

- Ability to participate in favourable currency movements; if the Knock Out Rate trades participation in favourable movements may be possible to any level.
- Protection at all time with a known worst case rate.
- No premium payable.

#### **Disadvantages of a Knock In/Knock Out Forward**

- If the Knock Out Rate has not traded participation is capped at a certain rate.
- If the Knock Out Rate has not traded and if the Spot Rate trades at or outside the Knock In Rate during the term and the Spot Rate is more advantageous than the Strike Rate on the Expiry Date you will be obligated to trade at a rate that is less advantageous than the market rate on that day.
- If the Knock In Rate trades during the term and the Spot Rate continues to exceed the Strike Rate prior to the Expiry Date Travelex may require you to make a margin call to secure your out of the money position. For more information on margin calls please see Section 10 below and our Terms and Conditions

### **5.9 Range Reset Forward**

#### **General Product Information**

The Range Reset Forward is a Structured Option that gives you the benefit of achieving an enhanced exchange rate compared to the equivalent forward exchange rate provided that the Spot Rate remains within a specified range for the entire life of the structure. A Range Reset Forward will always provide you with a guaranteed worst case rate allowing you to protect against the risk that the Spot Rate is less favourable on expiry of the contract.

#### **How a Range Reset Forward Works**

A Range Reset Forward is structured by entering into the following four concurrent options:

- (i) You buy a Put Option from Travelex with a double knock out barrier (an option to sell that ceases to exist if the Spot Rate trades at or outside the Floor Rate barrier or the Ceiling Rate barrier prior to the Expiry Date) at the Enhanced Rate.
- (ii) You sell a Call Option to Travelex with a double Knock out barrier (an option to buy that ceases to exist if the Spot Rate trades at or outside the Floor Rate barrier or the Ceiling Rate barrier prior to the Expiry Date) at the Enhanced Rate.
- (iii) You buy a Put option from Travelex with a double knock in barrier (an option to sell that is contingent upon the Spot Rate trading at or outside the Floor Rate barrier or the Ceiling Rate barrier prior to the Expiry Date) at the Reset Rate.
- (iv) You sell a Call option to Travelex with a double knock in barrier (an option to buy contingent upon the Spot Rate trading at or outside the Floor Rate barrier or the Ceiling Rate barrier prior to the Expiry Date) at the Reset Rate.

### Example of a Range Reset Forward

An Australian importer needs to buy USD100,000 in 3 months time. The current Spot Exchange Rate is 0.6500 and the Forward Exchange Rate is 0.6425.

Enhanced Rate	0.6800
Reset Rate	0.6250
Floor Rate	0.5900
Ceiling Rate	0.7100
Expiry Date	3 months

The possible outcomes on expiry are as follows:

- If the Spot Rate has not traded above the Ceiling Rate or below the Floor Rate during the term of the structure, the importer must buy USD100,000 at 0.6800
- If the Spot Rate has traded above the Ceiling Rate or below the Floor Rate during the term of the structure, the importer must buy USD100,000 at 0.6250

### Advantages of a Range Reset Forward

- Ability to achieve an enhanced rate over the comparative Forward Exchange Rate if neither barrier is breached.
- Protection at all time with a known worst case exchange rate.
- No premium payable.

### Disadvantages of a Range Reset Forward

- If the range is breached, you could be trading at a level lower than the comparative Forward Exchange Rate.
- There is potential to be transacting at a rate that is less advantageous than the Spot Rate on the Expiry Date.
- If the Spot Rate is trading at a rate that is more advantageous than the Enhanced Rate or the Reset Rate during the term of the structure Travelex may require you to make a margin call to secure your out of the money position. For more information on margin calls please see Section 10 below and our Terms and Conditions.

## 5.10 Ratio Forward

### General Product Information

A Ratio Forward is a Structured Option that gives you the ability to trade at an enhanced exchange rate relative to a comparative Forward Exchange Contract. A Ratio Forward will always provide you with a guaranteed worst case rate allowing you to protect against the risk that the Spot Rate is less favourable on expiry of the contract.

Because there is a ratio component associated with this Structured Option you may be obligated to exchange an amount of currency that is greater than the contract amount (i.e. the contract amount multiplied by the ratio factor.)

### How a Ratio Forward Works

A Ratio Forward is structured by entering into two concurrent options. In the first you buy a Put Option at the Strike Rate from Travelex. In the second you sell a Call Option at the Strike Rate to Travelex. The contracted amount of the Call Option that you sell to Travelex will be equal to the contracted amount of the Put Option that you have bought multiplied by the Ratio.

### Example of a Ratio Forward

An Australian importer needs to buy USD100,000 in 3 months time.

The current Spot Exchange Rate is 0.6500 and the Forward Exchange Rate is 0.6425.

Strike Rate	0.6700
Face Value	USD50,000
Ratio (Bought: Sold)	1:2
Expiry Date	6 months

The possible outcomes on expiry are as follows:

- If the Spot Rate is below 0.6700 it will be more advantageous for the importer to exercise its Put Option and the importer will purchase USD50,000 at the Strike Rate.
- If the Spot Rate is above 0.6700 Travelex will exercise its Call Option and the importer will be obligated to purchase USD100,000 at the Strike Rate.

### Advantages of a Ratio Forward

- Ability to achieve an enhanced rate relative to the comparative Forward Exchange Contract rate.
- Protection at all times with a known worst case exchange rate.
- No premium payable.

### Disadvantages of a Ratio Forward

- You may be obligated to trade a multiple of the face value at the Strike Rate if the Spot Rate is more advantageous than the Strike Rate at the Expiry Date.
- You are unable to effectively hedge the entire amount of your exposure.
- You are unable to participate in favourable currency movements beyond the Strike Price. As such you may be obligated to trade at an exchange rate that is less favourable than the current market rate.
- If the Spot Rate exceeds the Strike Rate prior to the Expiry Date Travelex may require you to make a margin call to secure your out of the money position. For more information on margin calls please see Section 10 below and your Terms and Conditions.

## 5.11 Knock Out Forward with Reset

### General Product Information

The Knock Out Forward with Reset is a Structured Option that gives you the benefit of achieving an enhanced exchange rate compared to the equivalent forward exchange rate provided that the Spot Rate does not trade at or outside a knock out rate for the entire life of the structure. If the knock out rate is traded the Enhanced Rate will cease to exist and is replaced by a reduced amount of cover at a reduced rate.

### How a Knock Out Forward with Reset Works

A Knock Out Forward with reset is structured by entering into the following four concurrent options:

- (i) You buy a Put Option from Travelex with a knock out barrier (an option to sell that ceases to exist if the Spot Rate trades at or outside the Barrier Rate prior to the Expiry Date) at the Enhanced Rate.
- (ii) You sell a Call Option to Travelex with a knock out barrier (an option to buy that ceases to exist if the Spot Rate trades at or outside the Barrier Rate prior to the Expiry Date) at the Enhanced Rate.
- (iii) You buy a Put Option for the Reset Amount from Travelex with a knock in barrier (an option to sell that is contingent upon the Spot Rate trading at or outside the Barrier Rate prior to the Expiry Date) at the Reset Rate.
- (iv) You sell a Call Option for the Reset Amount to Travelex with a knock in barrier (an option to buy contingent upon the Spot Rate trading at or outside the Barrier Rate prior to the Expiry Date) at the Reset Rate.

### Example of a Knock Out Forward with Reset

An Australian importer needs to buy USD100,000 in three months time. The current Spot Exchange Rate is 0.6500 and the Forward Exchange Rate is 0.6425.

Enhanced Rate	0.6800
Barrier Rate	0.5900
Expiry Date	3 months
Reset Amount	USD50,000
Reset Rate	0.6300

The possible outcomes on expiry are as follows:

- If the Barrier Rate has not been triggered you will be obligated to buy USD100,000 at the Enhanced Rate;
- If the Barrier Rate has been triggered you will be obligated to buy USD50,000 at the Reset Rate.

### Advantages of a Knock Out Forward with Reset

- Ability to achieve an Enhanced Rate over the comparative Forward Exchange Rate if the Barrier Rate is not breached (i.e. the Spot Rate has not traded at or outside the Barrier Rate).
- At least partially protected at all time with a known worst case exchange rate.
- No premium payable.

### **Disadvantages of a Knock Out Forward with Reset**

- If the Barrier Rate is breached, you could be trading at a level lower than the comparative Forward Exchange Rate and only be partially protected.
- There is potential to be transacting at a rate that is less advantageous than the Spot Rate on the Expiry Date.
- If the Spot Rate is trading at a rate that is more advantageous than the Enhanced Rate or the Reset Rate during the term of the structure Travelex may require you to make a margin call to secure your out of the money position. For more information on margin calls please see Section 10 below and our Terms and Conditions.

## **6. Cost of a Structured Option**

Generally, Travelex, in consultation with you, sets the Strike Rate and the Knock In or Knock Out Rates associated with any Structured Option at particular levels in order to create a “No Premium” cost structure. When setting those rates, Travelex takes into account a variety of factors, similar to those used in calculating Premiums:

- The contract amount, the term, the Strike Rate and any other rates applicable to a particular structure (Participation Rate, Knock In or Knock Out Rate etc).
- Current market foreign exchange rates and the interest rates of the countries whose currencies are being exchanged.
- Market volatility.

Where a “No Premium” structure is created, there is no up-front Premium payable for a Structured Option. If however, you wish to nominate an improved Strike Rate or any other rate associated with a particular Structured Option, an up-front non-refundable Premium may be payable. Travelex will calculate the amount of the Premium and advise you of the amount before you enter into the transaction.

Where applicable, Premiums must be paid in cleared funds within 2 business days of the Trade Date.

You may be charged some transaction fees upon settlement or delivery of a Structured Option if this is carried out via a telegraphic transfer or draft. Transaction fees for telegraphic transfers and drafts are in addition to the costs detailed above.

The level of transaction fee we charge you for these services will vary based on: the size of the transaction; the relevant currency involved; how often you transact with us and the country to which the funds are being sent.

Travelex will advise you of any transaction fees before you establish a trading relationship. Travelex may vary these fees from time to time and will provide you with notice prior to doing so.

In addition to the fees charged by Travelex for sending payments by telegraphic transfer, any correspondent, intermediary or beneficiary bank(s) which facilitates the sending or payment of a telegraphic transfer may impose their own additional fees or charges which may be deducted from the amount paid to you or your beneficiary.

For further information in relation to the cost of telegraphic transfers/drafts in connection with a Structured Option, contact your Travelex Representative.

## **7. Benefits of Structured Options**

### **Benefits of Structured Options include:**

- Structured Options help you manage the risk inherent in currency markets by predetermining the rate and date on which you will purchase or sell a given amount of foreign currency against another currency. This can provide you with protection against negative foreign exchange movements between the time that you deal and the Value Date. This may also assist you in managing your cash flow by negating the uncertainty associated with exchange rate fluctuations for the certainty of a specified cash flow.
- Structured Options are flexible; Value Dates and amounts can be tailored to meet your requirements. You also have additional flexibility to participate in certain favourable exchange rate movements and may be able to achieve an enhanced exchange rate comparable to the equivalent forward rate depending on the Structured Option that you enter.

## 8. Significant Risks associated with Structured Options

Travelex considers that Structured Options are only suitable for persons who understand and accept the risks involved in transacting in financial products involving foreign exchange rates. Travelex recommends that you obtain independent financial and legal advice before entering into a Structured Option.

The following are the significant risks associated with a Structured Option:

- Cancellations may result in a financial loss to you. Travelex will provide a quote for such services based on market conditions prevailing at the time;
- There is no cooling off period;
- As counterparty to your Structured Option you are relying upon Travelex's financial ability to fulfil its obligations to you upon maturity of the contract. As a result you have counterparty risk. To aid in your assessment of this risk Travelex will provide you with a copy of its latest audited financial statements upon request. You may request a copy of our most recent financial statements by emailing us at [enquiry@travelex.com.au](mailto:enquiry@travelex.com.au).

## 9. Terms and Conditions and other documentation

Each Structured Option which you enter into will be subject to Travelex's Terms and Conditions for Foreign Exchange Trading and Terms and Conditions for Options. You will be required to sign these before entering into a Structured Option.

In addition to our Terms and Conditions you will also need to provide us with the following signed documentation together with such other "Know your Customer" information that Travelex may require.

- Audited financial statements (no more than 12 months old); and
  - a "Direct Debit Request" form
  - a Global Pay User Configuration form

Copies of these forms can be obtained by contacting Travelex.

Upon completion of these documents Travelex will conduct an accreditation process. Accreditation and acceptance of a customer is at Travelex's sole discretion and depends on a number of factors.

The main checks that are relevant to the accreditation of a customer are:

- Verification of a customer's identity in accordance with relevant AML/CTF laws
- A successful credit check conducted through a third party credit agency
- An AML/CTF risk assessment considering relevant factors such as the nature of a customer's business and the country where the customer will make or receive payments
- A check of a customer's principal officers and beneficial owners against relevant government issued sanction lists

## 10. Credit requirements

Over the life of a Structured Option, as the Spot Rate moves, the contract may be In the Money (ITM) or Out of the Money (OTM) or At the Money (ATM). That is, if the contract had to be cancelled at any time, it would result in a gain (ITM) or a loss (OTM) or breakeven (ATM). To manage the Market Risk when a Structured Option is entered into, where the potential for it to move OTM may occur, Travelex may initially secure the contract by taking an advance partial prepayment/cash deposit from you. Alternatively Travelex may apply this Market Risk against your Trading Limit. You will be advised directly by Travelex in this regard.

### Margin Calls

Should a Structured Option contract move OTM in excess of the upfront partial prepayment or your Trading Limit Travelex will secure this increased market risk through an Additional Partial Prepayment/Margin Call. Margin Calls represent a pre-payment of the Structured Option by you. If a Margin Call is triggered, Travelex will advise you immediately. **Payment of the Margin Call must be made within two (2) business days of Travelex's request. If you fail to pay a Margin Call Travelex may, in its discretion choose to cancel some or all of your Structured Options. In such circumstances you will be liable to Travelex for all costs associated with terminating the relevant contracts.**

### Taking a Cash Deposit

In the absence of a sufficient or no Trading Limit, you may still obtain a Structured Option on an advance prepayment/cash deposit basis. Generally, Travelex asks for a cash deposit for each Structured Option entered into.

The cash deposit represents an advance pre-payment of the Structured Option and is taken to secure Travelex's potential exposure resulting from adverse OTM currency movements. Your cash deposit will reduce the final payment that you are required to make on the Value Date. The initial cash deposit that we require will be determined as a percentage of the value of the Structured Option or Structured Options that you have entered. Travelex may determine this percentage at its discretion based on a number of factors including the value of your outstanding Structured Options, your current financial position/credit rating and the prevailing market conditions.

### Trading Limits

Travelex may choose to waive the requirement of a cash deposit by applying the required amount (or notional deposit) against a Trading Limit. The Trading Limit is dependant upon your credit history/rating, strength of financial statements, as well as other factors determined at Travelex's sole discretion. Travelex may review and amend your Trading Limit at any time.

There are two methods that may be used by us in respect of Your Trading Limits:

(a) Against individual contracts

Travelex may waive the need for a cash deposit by applying the required deposit of each Structured Option against a Trading Limit. The Structured Option is regularly revalued over the term of the Structured Option.

(b) Against customer portfolios

Travelex may allocate a Trading Limit against the net position of your entire portfolio of open foreign exchange contracts. We revalue every contract in your portfolio, and if net exposures (ITM and OTM) are within your Trading Limit a Margin Call will not be triggered. However, if through revaluation the net exposure exceeds your Trading Limit, a Margin Call is required to take your net exposure to zero.

(Please refer to the 'Terms and Conditions for Foreign Exchange Trading' for further information on 'Credit and Authorisation limits').

## 11. Instructions, Confirmations and telephone conversations

The commercial terms of a particular Structured Option will be agreed and binding at the time of dealing. This will occur verbally over the phone as set out in our Terms and Conditions for Foreign Exchange Trading.

Shortly after entering into a Structured Option Travelex will send you a Confirmation outlining the commercial terms of the deal; this Confirmation is intended to reflect the transaction that you have entered into with Travelex. It is important that you check the Confirmation to make sure that it accurately records the terms of the transaction and sign and return a copy to Travelex. You should note however that there is no cooling off period with respect to a Structured Option and that you will be bound once your original instruction has been accepted by Travelex regardless of whether you sign or acknowledge a Confirmation. In the event that there is a discrepancy between your understanding of the Structured Option and the Confirmation it is important that you raise this with Travelex as a matter of urgency.

Telephone conversations with our dealing room are recorded in accordance with standard market practice. We do this to ensure that we have complete records of the details of all transactions. Taped telephone conversations are retained for a limited time and are usually used when there is a dispute and for staff monitoring purposes. If you do not wish to be recorded you will need to inform your Travelex representative. Travelex will not enter into any transaction over the telephone unless the conversation is recorded however.

## 12. Dispute Resolution

You should address any complaint relating to the product described in this PDS to your Travelex representative in the first instance.

If your complaint is unable to be resolved the matter will be automatically escalated to the relevant business unit Sales Manager. If a resolution is not reached within a reasonable time period, the matter will be further escalated to Travelex's Compliance Manager who will refer the matter to Senior Management for resolution.

If You have any enquiries about our dispute resolution process, please contact the Compliance Manager at the principal business address listed below, or call 1300 727 113 or email us at [customerservices@travelex.com.au](mailto:customerservices@travelex.com.au).

If you are dissatisfied with the resolution of a complaint you have the right to refer the complaint to:

Financial Ombudsman Service (FOS)

GPO Box 3

Melbourne, Victoria 3001

Toll Free Number: 1300 78 08 08

[www.fos.org.au](http://www.fos.org.au)

FOS operate an independent dispute resolution scheme.

## 13. Privacy

In the course of providing foreign exchange services we may collect information about you. The information that we obtain from you or other people is for the purpose of processing your foreign exchange transactions. Certain information may be required by us in order to comply with laws and regulations, including anti-money laundering laws. We may use your information to send you details about Travelex products. If you do not wish to receive such information please let us know. We may also disclose information about you to third party service providers (such as credit checking agencies) who assist us in our business operations and service provision.

Travelex is committed to complying with all privacy laws and regulations. Further information about Travelex's privacy practices can be found at [www.travelex.com.au](http://www.travelex.com.au).

If you would like further information about the way that Travelex manages the handling of personal information, please contact our Privacy Officer:

- Email: [privacy@travelexgbp.com.au](mailto:privacy@travelexgbp.com.au)
- Mail: Attention Privacy Officer, Level 12, 1 Margaret Street, Sydney NSW 2000
- Call : 1800 036 739

## 14. Taxation

Taxation law is complex and its application will depend on a person's individual circumstances. When determining whether or not these products are suitable you should consider the impact it will have on your own taxation position and seek professional advice on the tax implications it may have for you.

## 15. Key Terms

**Additional Partial Prepayment/Margin Call** has the meaning set forth in section 10.

**AUD** means Australian Dollar.

**Call Option** means a contract that gives the buyer the right, but not the obligation to buy a specified amount of currency.

**Confirmation** means written or electronic advice from Travelex that sets out the commercial details of a Structured Option.

**Currency Pair** means the two currencies in a Structured Option.

**Customer** means the entity that signs Travelex's Terms and Conditions for Foreign Exchange Trading and Terms and Conditions for Options.

**Enhanced Rate** means, where applicable, the exchange rate that will apply to the purchase or sale of currency when a Buyer exercises its right under a Put Option or Call Option.

**Exercise** means to make use of the right, which is possessed by a party, as specified in a Call Option or a Put Option, e.g. the right to buy, in which case, once exercised the seller of the option is obligated to the buyer on the terms already agreed.

**Expiry Date** means the date on which a Structured Option expires.

**Expiry Time** is the time of the day on the Expiry Date that a Structured Option lapses.

**Foreign Exchange Rate** means the rate at which a currency pair is exchanged.

**Forward Exchange Contract** means an agreement where one currency is bought or sold for another currency at an agreed Forward Exchange Rate for settlement at a specified date in the future.

**Forward Exchange Rate** means the Spot Rate adjusted to a future date having regard to the interest rates prevailing in the two countries in the Currency Pair and any other relevant factor.

**Knock In Rate** means, where applicable, the exchange rate that we agree must be traded in the spot foreign exchange market before the Expiry Time for the Buyers right pursuant to a Call Option or Put Option to become effective.

**Knock Out Rate** means, where applicable, an agreed exchange rate that if traded in the spot foreign exchange market before the Expiry Time the Buyers right pursuant to a Call Option or Put Option cease to exist.

**Interbank Exchange Rate** means the wholesale Spot Rate that Travelex receives from the foreign exchange interbank market.

**Issuer** has the meaning of s 761E of the Corporations Act 2001 (Cth).

**Mark to Market** means a valuation methodology which reflects the current value of the Cash Flows related to the transaction and provides information about market risk and appropriate hedging actions.

**Market Risk** means the risk of adverse movements in the value of a transaction due to movements in the Spot Rate over time.

**Participation Rate** means the most advantageous exchange rate that can potentially be achieved in any Structured Option that has a collar structure in place as agreed by you.

**PDS** means Product Disclosure Statement.

**Put Option** means contract that gives the buyer the right, but not the obligation to sell a specified amount of currency

**Reset Rate** means the exchange rate that will apply to the purchase or sale of foreign currency where an applicable knock in or knock out rate has been traded in an applicable structured option.

**Settlement Risk** means the risk that a counter party will be unable to fulfil its obligations on the Value Date.

**Spot Exchange Rate** or **Spot Rate** means the exchange rate for settlement on a Value Date of up to two (2) business days from the date the transaction was entered.

**Strike Rate** means, where applicable, the exchange rate that will apply to the purchase or sale of currency when a Buyer exercises its right under a Put Option or Call Option.

**Trading Limit** means the provision of credit terms to you to cover the exposure emanating from the Settlement Risk.

**USD** means United States Dollar.

**Value Date** has the meaning set forth in section 3.

'**We/we, Our/our, Us/us**' means Travelex GBP Australia Pty Limited ABN 24 150 129 749.

'**You/you, Your/your**' means the Customer.

## 16. Updates relating to this PDS

The information in this PDS is subject to change. Travelex will issue a supplementary or replacement PDS where new information arises that is materially adverse to the information in this PDS. Where new information arises that is not materially adverse to the information in this PDS Travelex will post such updated information on its website at [www.travelex.com.au](http://www.travelex.com.au). You may request a paper copy of this information free of charge from Your Travelex representative or by contacting Travelex on 1300 727 113.

## 17. Contact details

### General enquiries

1300 727 113

[www.travelexbusiness.com/au](http://www.travelexbusiness.com/au)

[enquiry@travelex.com.au](mailto:enquiry@travelex.com.au)

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