



Hedging Counterparties Policy

March 2020

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| Company: | Pepperstone Group Limited |
| ACN: | 147 055 703 |
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Introduction

This policy explains the methodologies that Pepperstone Group Limited (**'Pepperstone' 'we' 'us' 'our'**) uses to manage market risk and to decide upon the size of our exposure limits to our counterparties. We've developed this policy with reference to ASIC Regulatory Guide 227.

"Credit risk" is the risk that a counterparty of ours fails to perform its obligations which results in us incurring financial loss. By managing our credit risk, we intend to protect both our business and our clients from any sudden changes in the liquidity, credit quality or solvency of our banks or brokers.

We primarily take on market risk to facilitate execution of client trades. For this reason our market risk limits are generally very conservative.

This policy covers how Pepperstone deals with:

- market risk;
- credit risk; and
- selecting and assessing counterparties.

1. Market risk mitigation, monitoring and reporting

We don't take proprietary positions based on an expectation of market movements. However, we don't hedge all client transactions, so we may have a net position (and exposure to market risk) to the extent that we have a residual unhedged position in any of the markets on which we offer financial products.

We have internal market risk procedures that limit our net exposure arising from client activities and hedging for every financial market in which our clients trade, as well as certain groups of markets which we consider to be correlated.

Our risk management systems allow us to continually monitor our exposure against these limits in real time and on a group-wide basis. If our exposure exceeds the limits as a result of clients' activities, we will carry out sufficient hedging to bring the exposure back within the defined limit.

Changes to our internal market risk procedures require approval by the Pepperstone Board of Directors (**"Pepperstone Board"**).

2. Credit risk mitigation and reporting

We have internal counterparty credit risk procedures for assessing credit risk and setting credit risk limits. We review these procedures once every six months and present proposed changes to the Pepperstone Board for approval before publishing any updates to the procedures.

We review the credit quality of our major counterparties on an on-going basis, with a formal risk review for each counterparty performed at a minimum on an annual basis and more frequently if there's a significant change in market conditions or relevant news.

Our Market Risk function monitors our exposures to each counterparty on a daily basis.

It's our policy to reduce the risk of counterparty failure through diversification and by setting each counterparty a risk-assessed exposure limit.

3. Minimum criteria for accepting hedging counterparties

We assess each potential hedging counterparty to confirm that it:

- has adequate financial and compliance resources;
- has an adequate financial license in its jurisdiction;
- holds client funds in a reputable bank; and
- has a good reputation within the financial industry.

We do not accept a potential hedging counterparty unless it meets the minimum qualification criteria set out above.

Addition of new hedging counterparties require approval by Pepperstone's Market Risk Committee. Changes to existing counterparty limits require approval from the Pepperstone Board.

4. List of current hedging counterparties

Our primary hedging counterparties are:

- Jefferies Financial Services, Inc;
- LMAX Limited;
- IG Markets Limited; and
- IS Prime Limited.

We also have relationships with several other hedging counterparties to provide contingencies and to mitigate against counterparty risk.

If you need any additional information or would like a full list of all our current hedging counterparties, please feel free to contact us at support@pepperstone.com.



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