Hedging Counterparties Policy
FXCM Australia Pty. Limited
INTRODUCTION

This policy explains the methodologies that FXCM Australia Pty. Limited (“FXCM”, “FXCM AU”, “us”, “our”) utilises to manage exposure to market risk, determining exposure limits and information on our hedging counterparties. This policy has been developed with reference to the ASIC Regulatory Guide 227.

COUNTERPARTY RISK

You are dealing with FXCM as counterparty to every transaction, and FXCM is acting in the capacity of principal with respect to your transaction. As we may enter into transactions with other counterparties in relation to exposures from client transactions, you are indirectly exposed to the risk of default by our counterparties. FXCM may also enter transactions as principal with the liquidity providers for certain FXCM affiliate client orders in order to facilitate affiliate companies to manage their market positions. Thus, you are exposed to the financial and business risks, including FXCM’s exposure to market risk and credit risk.

You are reliant on FXCM’s ability to meet its counterparty obligations to you to settle the relevant contract and rely on us to take appropriate measures to reduce risk. In the unlikely event that FXCM becomes insolvent, we may be unable to meet our obligations to you. You may become an unsecured creditor in an administration or liquidation.

MARKET RISK MITIGATION AND MONITORING

Market risk is defined as the risk that the value of a portfolio, either an investment portfolio or trading portfolio, will decrease due to the change in the value of the market risk factors. The four standard market risk factors are equity prices, interest rates, foreign exchange rates, and commodity prices. The market risk is monitored on a real time basis which allows FXCM to identify open market risk positions in real time. Customer positions are monitored and managed on a global level. Exposures are monitored and hedging is based on a hierarchy of exposure and margin limits. The FXCM affiliate group entities have the option to either hold the position, or offset with a market counterparty.

Note that in relation to client trades, FXCM’s trading software technology mitigates FXCM’s risk. Daily risk monitoring, margin call and closeout procedures is in place to monitor client usable margins, equity levels and initiating close-outs for clients who fail to meet their equity levels or margin requirements.

FXCM Australia uses both group and external counterparties for hedging purposes. Exposure is managed either internally via portfolio hedge trades with group entities, or externally via one of a number of price providers/market counterparties, via FXCM’s Prime Brokers. FXCM also has back-ups for all of its hedging activities and is not overly reliant on a single counterparty.

The FXCM Market Risk Committee monitors and reviews changes in market conditions and how they impact the firm on a global level, and will mitigate market risks by taking pre-emptive measures such as raising margins in order to reduce client exposure, potential losses, while also reducing the risks for FXCM.

CREDIT RISK MITIGATION

FXCM holds funds at various third party financial institutions. FXCM also trades OTC derivatives with third party bank and non-bank counterparties, and therefore would be exposed if these counterparties were to show signs of financial distress or ultimately go into liquidation. A credit review process is carried out for all new third party payment vendor, banking, and trading relationships, and routine monitoring and checks are carried out on counterparty news and credit ratings of counterparties.

At a global level, FXCM has internal policies and procedures for concentration risk, collateral and group credit risk with set limits for credit risks it faces, which are reviewed on an annual basis or whenever there is a significant change to FXCM’s business practices, operations or regulatory requirements.
LIST OF HEDGING COUNTERPARTIES

FXCM group entities, including FXCM Australia, cooperate with the following hedging counterparties and price providers:

- Forex Capital Markets, Limited (FXCM UK)
- FXCM Markets Limited
- Citibank NA London
- Barclays Bank PLC
- Jefferies LLC
- Jefferies Financial Services, Inc.
- Citadel Securities LLC
- Fastmatch Inc.
- XTX Markets Limited
- Deutsche Bank AG
- UBS AG
- Jump Trading International Limited

MINIMUM CRITERIA FOR ACCEPTING HEDGING COUNTERPARTIES

Prospective counterparties are subject to a review which addresses all pertinent factors such as:

- Market Reputation;
- Legal power of counterparty to enter into the contract;
- Sufficient or enforceable legal documentation;
- Compliance with regulatory requirements;
- Management and security of documents; and,
- Financial standing of counterparty.

From a price and execution perspective, liquidity providers are ranked by their order rejection rate, spreads, latency and other factors relevant to customer execution outcomes. FXCM constantly evaluates and monitors the ranking of our liquidity providers. By holding ourselves and our liquidity providers to such high standards, we strive to provide the best possible customer experience.