

Hedging Policy & Procedure

Version Control

Version History

This section provides a summary of the updates and operational versions of this Hedging Policy & Procedure.

Version Number	Date	Editor/Approver	Summary of Amendments
Version 1.0	2 September 2014	Nicole Vivian/Paul Park	N/A
Version 1.1	10 November 2014	Nicole Vivian/Paul Park	Updated to include FMA requirements for licence application
Version 2.0	30 September 2015	Nicole Vivian/Paul Park	Update for cessation of DB relationship
Version 2.1	15 February 2017	Nicole Vivian/Paul Park	Update for Aust PDS rewrite and to include policy on website
Version 2.2	28 March 2017	Nicole Vivian/Paul Park	Update for changes following Maddocks review

Policy

Hedging Policy

Rule: MahiFX has a formal hedging arrangement in place

The MahiFX Platform and MT4 Platform have automated FX market risk management processes. FX market risk is managed in realtime using trading limits, market risk limits, and third-party hedging.

MahiFX, via a related company called Mahi Capital Limited (**Mahi Capital**), has access to liquidity through a Prime of Prime broker that connects Mahi Capital to third-party hedging counterparties. MahiFX has assessed, and continues to monitor, the quality and financial standing of Mahi Capital and its hedging counterparties.

Accordingly, MahiFX manages its exposure to market risk from client positions using a combination of automated internal risk management processes and carefully selected hedging counterparties.

Procedure: MahiFX back-to-backs each and every transaction with Mahi Capital

Following notification of a client entering into a FX Contract, MahiFX will immediately back-to-back that transaction (i.e., enter into an equal and opposite reciprocal transaction) with Mahi Capital. Mahi Capital aggregates and manages the risk arising from FX transactions using proprietary risk management software and third-party hedging.

Procedure: MahiFX requires commercially acceptable counterparties

MahiFX requires, as a condition of dealing with Mahi Capital, that Mahi Capital selects only counterparties that MahiFX is comfortable being indirectly exposed to. Such counterparties must be regulated by a reputable government agency.

Mahi Capital has access to a panel of third-party liquidity providers through its Prime of Prime broker (currently, CFH Clearing Ltd). MahiFX has satisfied itself, and continues to monitor, Mahi Capital's Prime of Prime broker and hedging counterparties. MahiFX is satisfied that Mahi Capital has chosen a well regulated, market leading Prime of Prime broker that is financially sound. Accordingly, MahiFX is satisfied that the counterparty risk borne in connection with its hedging counterparties is commercially acceptable.

Hedging Tolerances

Rule: Mahi Capital will hedge FX market risk when the following net open position limits are exceeded: 1,000,000 in each currency unit, 25,000 in silver and 500 in gold.

MahiFX has formally set its hedging tolerances at 1,000,000 in each currency unit, 25,000 in silver and 500 in gold. If the net open position of any FX position is exceeded then MahiFX will use all reasonable commercial endeavours to hedge that risk. Mahi Capital may seek to hedge FX market risk at lower levels if it considers doing so commercially appropriate. MahiFX considers that Mahi Capital's hedging tolerances are appropriate and reasonable.

Risk Management Processes

Procedure: Mahi Capital utilises a VaR Model to monitor and manage market risk

Market risk is monitored, limited and controlled by a VaR model (Value at Risk model) that seeks to constrain risk to USD \$50,000 at the 95% confidence level. The Platform will automatically skew offered FX rates to seek to acquire FX trades that self-neutralise and reduce the FX market risk within Mahi Capital's portfolio. Hedging contracts will be entered into with third-party hedging providers to further control and reduce any residual FX market risk.

Procedure: Liquidity Risk Management - Trade Lots Size

MahiFX (via Mahi Capital) has access to 30 million of USD, EUR or GBP liquidity at all times, depending on the currency pair, and can immediately execute 30 million units of cover. Under MahiFX's Terms of Use, it will only honour 5 million units on any given price, so it has substantially over insured its liquidity requirements.

Procedure: Counterparty Risks

Mahi Capital has arrangements in place with a market leading, FCA (UK) regulated Prime of Prime broker. That broker enables Mahi Capital to access a panel of liquidity providers, including leading FX trading venues and highly rated, OECD regulated, and systemically important banks and other counterparties.

Mahi Capital has policies for assessing and monitoring counterparty risks, including concentration limits to diversify exposures once pre-determined risk limits are reached.

Procedure: The Head of Analytics is responsible for the FX risk management system

The Head of Analytics, with oversight from the CEO, is responsible for the operation and effectiveness of the Platform and FX market risk management.

Fully Integrated

Rule: The Platform is fully integrated

The Platform is fully integrated via various APIs. This structure allows the Platform to continuously gather information and issue and receive payment or contractual instructions (e.g., hedging contracts).

Given the highly automated nature of MahiFX's system, the key operational aspects (FX market risk and liquidity) are conducted and monitored continuously and in real time by multiple redundant systems. These systems do not allow for human discretion to override the risk controls/limits and the system automatically and continuously controls and reports on these risks.

Procedure: Hedging Process

Where the risk exceeds Mahi Capital's risk tolerances, it will enter into risk reducing transactions with a third-party hedging provider. Clients' currency positions are monitored in real-time and marked-to-market continuously (when currency markets are open) to ensure that MahiFX and Mahi Capital have timely information on their FX market risk.

Procedure: MahiFX has discretion to request hedges at any time

In addition to the automated hedging processes of the Platform, Mahi Capital may manually hedge FX risk at any time subject to its own discretion. The Head of Analytics has authority to order discretionary hedges.

Key Risks and Controls

Rule: MahiFX has identified key risks and controls

Counterparty risks and exposures are monitored by the Head of Analytics on a regular basis and, at a minimum, reviewed annually, unless heightened risk factors are present and necessitate more regular monitoring.

In the unlikely event that any controls are breached or issues detected by the system, they will be reported to the Head of Compliance. All breaches are brought to the attention of the COO for remedial actions and, depending on the nature of the breach, the CEO and the board of directors.

The Head of Analytics and Head of Compliance are responsible for managing and reporting on these risks.