

Financial Resources Policy & Procedure

Version Control

Version History

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

Version Number	Date	Editor/Approver	Summary of Amendments
Version 1.0	20 February 2012	Nicole Vivian/Paul Park	N/A
Version 1.01	1 February 2014	Nicole Vivian/Paul Park	Update NTA requirements following increase in threshold from 500k to 1m
Version 1.02	12 September 2014	Nicole Vivian/Paul Park	Updated to include FMA requirements for licence application
Version 1.1	12 February 2015	Nicole Vivian/Paul Park	Updated to include elements from Derivatives Issuer Licence issued 20 Jan 2015
Version 1.2	30 March 2017	Nicole Vivian/Paul Park	Updated following Maddock's review

Policy

This policy and procedure provides an overview of the processes and strategies employed by MahiFX Limited (**MahiFX**) to ensure that it meets the financial resource requirements of maintaining its Australian AFS Licence and New Zealand Derivatives Issuers Licence and any other NZ or Australian regulatory requirements.

As an Over The Counter (**OTC**) derivatives issuer, MahiFX must ensure that at all times it has sufficient resources to conduct its business, maintains a financial buffer and is sufficiently capitalised.

MahiFX must be solvent at all times.

AFS License Requirements

Rule: MahiFX must uphold the financial requirements of being an AFSL license holder

As the holder of an AFS license, MahiFX has obligations to:

- Have adequate financial resources to provide the financial services covered by its licence and to carry out supervisory arrangements;
- Do all things necessary to ensure the financial services covered by its license are provided efficiently, honestly and fairly;
- Have adequate risk management systems; and
- Comply with the conditions on its license.

Rule: MahiFX must adhere to the conditions imposed by its AFS License

MahiFX received its AFS licence on 17 February 2012. The AFS license authorises MahiFX to carry on a financial services business providing general financial product advice for derivatives and foreign exchange contracts; deal in a financial product; and make a market in foreign exchange contracts and derivatives to retail and wholesale clients.

The AFSL licence was granted subject to the following conditions:

1. Key Person
2. Compliance Measures
3. Training Requirements for Representatives
4. Financial Requirements
5. Financial Requirements for Foreign Exchange Dealers

6. Financial Requirements for Holding Client Money or Property
7. Financial Requirements for Transacting with Clients
8. Reporting Triggers
9. Audit Opinion on Financial Requirements
10. External Disputes Resolution Requirements
11. Prohibition to Operate an Managed Discretionary Account Service
12. Retention of Financial Services Guides, Statement of Advice and Material Relating to Personal Advice

MahiFX must at all times satisfy the conditions of its licence or report any breach immediately to ASIC. The relevant financial requirements are set out in detail below.

AFSL Base Level Financial Requirements

Rule: MahiFX must meet the base level financial requirements

MahiFX must :

- a) Be able to pay all its debts when they are due and payable; and
- b) Have total assets exceeding total liabilities; and
- c) Meet the cash needs under Option 2 - Contingency Based Projection

Adoption of Option 2 allows MahiFX to demonstrate that the risk that it will not have access to adequate cash is sufficiently small by calculating a projection that takes into account a range of commercial contingencies that could impact on its cash position.

Procedure: MahiFX adopts Option 2 - Contingency Based Projection

Adoption of Option 2 - Contingency Based Projection, requires MahiFX to:

1. Prepare a quarterly projection of MahiFX's cash flows over the next 12 months based on MahiFX's estimate of what would happen if its ability to meet its liabilities over the projected term was adversely affected by commercial contingencies taking into account all contingencies that are sufficiently likely for MahiFX to plan how it might manage them; and
2. Document MahiFX's calculations and assumptions, and describe in writing why the assumptions relied upon are the appropriate assumptions; and
3. Update the projection of MahiFX's cash flows when those cash flows cease to cover the next 12 months or if the licensee has reason to suspect that an updated projection would show that MahiFX did not have access to sufficient financial resources; and
4. Demonstrate, based on the projection of MahiFX's cash flow, that it will have access when needed to enough financial resources to meet its liabilities over the projected term of at least 12 months, including any additional liabilities MahiFX might incur during that term.

AFSL Cash Needs Requirement

Rule: MahiFX must meet the cash needs requirements

MahiFX must in each March, June, September and December, prepare a projection of its cash flows over the next 12 months based on its reasonable estimate of revenues and expenses over this period.

MahiFX must document the calculations and assumption used in preparing the projection and their appropriateness.

These projections must be made available to ASIC on request.

Procedure: Review and certified by the CFO/Director

All calculations and assumptions used in preparing the projection are documented, as are the reasons why they are deemed appropriate.

All projections are prepared by the finance division and formally reviewed and approved by the CFO, who is also a Director.

Upon review, the CFO certifies that based on the projected cashflows, MahiFX will have access to enough financial resources to meet its liabilities over the projected term of the next 12 months; and it will hold at all times during the next 12 months, cash or cash equivalents equal to or greater than the amount required.

AFSL Net Tangible Assets

Rule: MahiFX must meet the net tangible assets requirements

MahiFX must have at all times net tangible assets (**NTA**) of at least the greater of :

- i) AUD\$1,000,000; or
- ii) 10% of average revenue

MahiFX must hold at all times:

- a) cash and cash equivalents in an amount that is at least 50% of the required NTA (i.e., AUD\$500,000);
and
- b) liquid assets in an amount that is at least 50% of the required NTA. (i.e., AUD\$500,000).

MahiFX must lodge with ASIC a statement in writing setting out its NTA at the end of its financial year and details of how it was worked out.

Procedure: MahiFX prepared its net tangible assets requirements calculations quarterly

MahiFX prepares net tangible asset calculations on a quarterly basis in tandem with its cash needs requirements projections. Its net tangible asset calculations are prepared by the finance division and reviewed and certified by the CFO whom is also a director.

AFSL Reporting Triggers

Rule: MahiFX must lodge a written report with ASIC in the event of a notifiable event

Where the NTA of MahiFX decreases (a notifiable event) from an amount greater than 110% of the required NTA to a lower amount, MahiFX must lodge a report with ASIC that specifies the NTA within 3 days after becoming aware of the notifiable event and on the first day of every month after becoming aware until as at the last day for the preceding month the NTA is greater than 110% of the required NTA.

AFSL Audit Opinion on Financial Requirements

Rule: MahiFX must lodge with ASIC a report by a registered auditor for each financial year

MahiFX must lodge a report by a registered auditor for each financial year detailing that in the auditors opinion, MahiFX:

- i) complied with the financial requirement conditions of its license;
- ii) correctly calculated its financial projections

The auditor must also examine the calculations, assumptions and descriptions relied on in MahiFX's calculations confirming it has no reason to believe MahiFX did not have sufficient financial resources, did not comply with its financial obligations, or that the assumptions adopted by MahiFX in its projections were inappropriate.

Procedure: MahiFX's auditors conduct an AFSL audit in tandem with the preparation of its annual report

MahiFX engages EY to audit both its financial statements and its AFSL financial requirements. The audit of the financial statements is conducted from the EY Christchurch office and the audit of the AFSL requirements is conducted via the EY Australia office.

AFSL Financial Resources

Rule: MahiFX is self funded and adequately resourced

MahiFX was established and funded solely by its shareholders by way of NZD\$7,500,000 in shareholder advances.

In addition, at any time MahiFX has over NZD\$1,300,000 on deposit with National Australia Bank, that is available for immediate withdrawal.

FMA Capital Adequacy Requirements

Rule: MahiFX must meet the capital adequacy requirements of the Financial Markets Conduct Act

Under the Financial Markets Conduct Act (**FMC Act**), MahiFX must have the financial resources available to provide the derivatives service, meet its contractual obligations and have effective arrangements in place for managing those resources.

Minimum standards, MahiFX must:

1. Be solvent and have positive net assets
2. Be able to pay its debts as they become due in the normal course of business
3. At all times NTA must be, at least, the greater of NZD\$1,000,000 or 10% of average income
4. Hold half of the required NTA in cash and cash equivalents, and the other half in liquid assets
5. Prepare a rolling projection of cash flows for the 12 months ahead, calculated at least every six months and approved by the board of directors.
6. Have adequate and effective systems, policies, procedures and controls to:
 - Monitor financial resource levels at all times
 - Prepare cash flow forecasts as per the conditions of license
 - Assess the risks of not having enough financial resources
 - Calculate NTA
 - Comply with the reporting and notifications requirements.

FMA Solvency & Cash Flow Forecasting

Rule: MahiFX must demonstrate its solvency at all times

MahiFX must be solvent at all times, pay its debts as they fall due and have positive net assets.

Every six months MahiFX must prepare 12 month cashflow forecasts demonstrating its ability to stay solvent, broken down into monthly intervals showing the timing of receipts and payments. MahiFX must also document the calculations and assumptions it uses in these forecasts and explanations of why these are appropriate.

FMA Net Tangible Assets

Rule: MahiFX must have net tangible assets of at least the greater of NZD\$1 million or 10% of average revenue

NTA equals total tangible assets less total liabilities, as per the MahiFX balance sheet, less excluded assets.

The NTA must not include any receivables from a related party or associate unless permitted, or any funds or investments in self managed portfolios.

Procedure: MahiFX has 3 month rolling terms deposits with NAB

At any time MahiFX has over NZD\$1,300,000 on deposit with National Australia Bank, in addition to on call amounts in multiple currency accounts.

Procedure: NTA calculation conditions

Permitted related party receivables are those resulting from a transaction done in the ordinary course of MahiFX's business, on standard commercial terms and at arms length. However, total permitted related party receivables cannot exceed 20% of net assets.

Shareholder loans can be excluded from total liabilities for the NTA calculation, provided MahiFX has written legal agreements with the relevant shareholder to subordinate the debt.

Average revenue means the average of 3 years revenue, including the current financial year to date (with a reasonable forecast for the rest of the year) plus the previous 2 financial years.

Rule: MahiFX must hold liquid assets

At least half of MahiFX's NTA requirement must be held in cash and cash equivalents, and at least half must be held in liquid assets (i.e., reasonably expected to be released for their market value within 6 months).

Rule: NTA Calculations Performed Monthly

MahiFX must calculate its NTA monthly, or more frequently if it suspects it no longer had 110% of its required NTA and report to the FMA.

Additionally if MahiFX has less than 100% of its required NTA for more than 20 working days or less than 90% of its required NTA at any time, MahiFX must stop entering into new contracts with clients without the express written approval from the FMA. MahiFX will, however, be able to permit clients to close out positions provided MahiFX can continue to hedge its overall position.

Audit Requirements

Rule: MahiFX will have its financial resource requirements audited annually

MahiFX will ensure that as part of the annual audit of its financial statements and ASIC procedures, its compliance with the FMC Act will also be included.

Any additional regulatory or financial calculations required by the FMA will be integrated into MahiFX's current audit process.