



# Information Sheet Foreign Exchange Derivatives Service Provision Franx B.V.

Franx B.V.  
Hessenbergweg 73  
1101 CX Amsterdam  
088-440 5500  
[service@franx.com](mailto:service@franx.com)



# Information Sheet Foreign Exchange Derivatives Service Provision Franx B.V.



## I. Introduction

In this information sheet, you will find an overview of what Foreign Exchange Derivatives Service Provision means for Franx. Investment companies, such as Franx, have the legal obligation to provide their clients with a general description of the nature and the risks of financial instruments. This document provides information with respect to foreign exchange derivatives, which you can enter into via the Platform of Franx. It provides a global overview of the most important financial instruments and the associated risks, but does not offer an exhaustive overview of all possible risks in relation to each specific product.

Furthermore, the information provided in this information sheet should neither be considered as investment advice based on your corporate situation, nor as a recommendation to trade in the products referred to in this document. You should always make a well-informed decision as to whether the products and services referred to herein are suitable and appropriate in view of your corporate situation and the financial position of your company.

### Purpose of the information

The purpose is that you, after reading this information sheet, are aware of the nature and the specific risks that are inherent to the foreign exchange derivatives offered by Franx. The information in this brochure and the description of the financial instruments in the available product information sheets are intended to explain to you how these products can support your specific risk management objectives with respect to foreign currencies.

If Foreign Exchange Derivative Transactions are concluded in an inadequate way, this may lead to undesired risks and (significant) costs, or even cause losses.

Risk factors, when occurring simultaneously and/or in combination with one another, may result in an unexpected effect on the value of a Foreign Exchange Derivative Transaction.

If the meaning of the information included herein is ambiguous or incomplete, we advise you to consult an independent (financial) adviser.

### Classification of clients in client categories

As of 1 November 2007, Franx, in the implementation of its service provision, makes a distinction between different Client Groups on the basis of the European MiFID Directive (Markets in Financial Instruments Directive); these Client Groups are the following: retail investor; professional investor; eligible counterparty. Franx has classified you in the category 'retail investor'. The principle is that your classification applies to all the products and services that you purchase from Franx.

A 'retail investor' receives the highest level of protection. This protection consists specifically of the assessment of your knowledge and experience prior to the purchase of a service or product. This assessment will, where necessary, be followed by a warning, if, in the opinion of Franx, such a service or product is not suitable for you. The retail client receives this level of protection because - it is assumed - they have less market knowledge and experience.

### Risks

Franx does not act as your adviser. You should only trade in foreign exchange derivatives if you are aware of the nature and the risks of these financial instruments. If they are implemented in an improper or inadequate way, it may lead to undesired risks and (significant) costs, or it may even cause losses. Risk factors, when occurring simultaneously and/or in combination with one another, may result in an unexpected effect on the value of your transaction(s). When trading in foreign exchange derivatives with Franx, Franx will always act as your counterparty (contracting party), with an independent interest, which may be opposed to your interest. Franx has a policy for conflicts of interests. It can be found on the website of Franx.

## 2. Service provision

### Exclusively execution-only

To conclude transactions you make use of the Platform of Franx. It concerns an execution-only service facility. Orders you transmit via this direct channel will be deemed to have been made under your own initiative and not upon any advice from Franx. As you have been classified as a retail investor, Franx will ask you information about your knowledge

of and experience with the type of Foreign Exchange Derivative Transactions to which the execution-only service provision applies. Franx will verify whether the envisaged Foreign Exchange Derivative Transactions are suitable for you, considering the information you provided with respect to your knowledge and experience. In this context, Franx will, among other things, verify whether you have the knowledge and experience required to understand the risks that are associated with Foreign Exchange Derivative Transactions. Franx is not required to take account of any information other than that referred to in the previous sentence. If Franx is of the opinion that the envisaged type of Foreign Exchange Derivative Transaction is not suitable for you, Franx will refuse execution-only service provision. When implementing execution-only service provision, Franx cannot be held responsible for assessing the suitability of each and every transaction.

### 3. What are foreign exchange derivatives

Foreign exchange derivatives are financial instruments that are used for hedging (future) financial risks or for achieving extra return on an investment. They are agreements that are established between two parties, with a value that is based on the development of a so-called base value. This underlying base value may consist of a foreign currency. Foreign Exchange Derivative Transactions take place directly with a market party, for instance with Franx. Franx exclusively offers foreign exchange derivatives for the hedging of financial risks.

There are a number of differences between listed derivatives and foreign exchange derivatives which are traded outside of an exchange:

- the trade in foreign exchange derivatives sometimes takes place in illiquid market conditions as a result of which it is not always possible to close or sell at a favourable price.
- furthermore, the parties to a Foreign Exchange Derivative Transaction know the identity of the other party and they investigate the creditworthiness of their counterparty. When trading via an exchange, the contracting parties don't know each other: a clearing house guarantees compliance with the obligations under the transaction.
- in conclusion, foreign exchange derivatives are non-transferable, as opposed to listed derivatives.

Franx exclusively offers foreign exchange derivatives for the hedging of corporate risks.

## 4. Position of the parties to Foreign Exchange Derivative Transactions

When trading in foreign exchange derivatives, Franx acts as your counterparty. The objective of Franx is to offer products for the risk management of the client. You always have to independently verify, evaluate and analyse the information provided. This applies to the market condition and market developments, but also to your legal, fiscal, accounting and credit position. Foreign Exchange Derivative Transactions, which are concluded at the initiative of the client via Franx, are intended for the hedging of corporate risks. For this reason, such transactions have to be based on an international (commercial) transaction.

### Hedging

Hedging means the coverage of (future) financial risks that may occur in case of price fluctuations in the market which are unfavourable to you. They may consist of price fluctuations in interest rates, currencies and commodities. Hedging also entails a risk. For instance, if the actual price fluctuations deviate from your expectation regarding the price fluctuations in the market, you may come to the conclusion - with hindsight - that you should have chosen to follow another strategy. The level of the risk is determined at the moment that the transaction is concluded on the basis of the variables you accepted.

## 5. Documentation

If you want to enter into a Foreign Exchange Derivative Transaction with Franx, such a transaction will, in principle, be subject to the Conditions of Foreign Exchange Derivatives Service Provision Franx B.V. (CFEDSP). Furthermore, you will enter into a Foreign Exchange Derivatives Service Provision Agreement Franx B.V.

## 6. Product information

There are several forms of derivatives, such as Currency Forward Transactions, Currency Swaps and Currency Options. Franx only offers Currency Forward Transactions. A separate product information sheet is available for these transactions, which explains the specific characteristics and risks of this product.

### FX Forward transactions

A FX Forward transaction is an agreement between two parties, whereby it is agreed to exchange a quantity of a certain currency at a future date (the "value date") against a quantity in another currency at a predetermined forward rate. The exchange rate at the end date is fixed for both parties. It cannot be influenced by exchange rate fluctuations between the moment of conclusion and the value date.

The agreed exchange rate (“forward rate”) consists of two components:

- the exchange rate, as applicable at the moment of conclusion and for transactions with immediate delivery: the spot price; and
- the interest rate difference between the two currencies concerned over the period from the date for direct delivery until the agreed value date.

## 7. Derivative risks

Holding positions in derivatives may have several consequences. While it may limit the risks for one party, it may create risks for the other party. Below, we present a general overview of the possible financial risks that may occur when trading in derivatives. You should be aware of these risks if you decide to trade in derivatives in order to mitigate your corporate risks. We advise you to only conclude a derivative transaction if you fully understand the nature and the risks of the transaction. If you are not sure, you should seek the advice of an independent adviser in order to obtain further information on the associated risks. The risks that you bear with your derivatives positions are strongly dependent on market developments and fluctuations in the financial markets. These are events on which Franx has little to no influence. The level of risk may differ for each type of transaction. In addition, the level of risks is determined by, among other things:

- the conditions, structure and complexity of the financial instrument;
- the objective and expectations at the moment of conclusion of the transaction;

If derivatives are implemented in an improper or inadequate way, it may lead to undesired risks and (significant) costs, or it may even cause losses.

### Liquidity risk

The liquidity of a financial instrument is directly determined by the supply/demand balance in the market and indirectly by other factors, such as market distortion, or problems with the settlement of the transaction. The liquidity of a value is also dependent on the associated characteristics, i.e. the trading conditions under which the transaction with the counterparty has been concluded. One of the conditions could be that it is impossible to terminate your position prematurely. If the parties have the possibility to prematurely terminate their position, each party has the risk that the position has a negative market value at that moment. The value of your position strongly depends on the market conditions. In conclusion, foreign exchange derivatives are non-transferable.

### Credit risk

Credit risk is the risk that your counterparty to the transaction is not able to comply with their payment obligations ensuing from the transaction, or that their creditworthiness (significantly) decreases.

### Market risk

The market price of a financial instrument is, among other things, dependent on the supply/demand balance in the market, the vision of the market parties, the price of the underlying value, industry-related circumstances and economic factors. These market developments or factors are sometimes unpredictable. A position or an investment with a cross-border element may be subject to cross-border market risks. These risks may be greater and in the case of cross-border transactions, the potential financial advantage or disadvantage may be influenced by fluctuations in the foreign exchange markets.

### Currency risk

The exchange rate risk exists because exchange rates fluctuate relative to one another. Transactions in derivatives that are expressed in a currency other than the base currency of the corporate cash flows are subject to a currency risk. The fluctuation of the interest rate that applies to the currency concerned may influence the value of your derivatives positions. Fluctuations in the value of the currencies are, among other things, dependent on the local economic circumstances of the home country and on social and political factors. Some countries maintain a strict policy on the trade in their local currency. Such policy may imply that the government may (significantly) restrict or temporarily prohibit the trade in the local currency. Devaluation of the local currency is also one of the possible risks.

### Interest rate risk

Rises or drops in interest rates may have both a positive and negative effect on the value of your position.

## 8. Differences in settlement method

In the case of FX Forward transactions, the underlying value is effectively delivered, as opposed to other foreign exchange derivatives, such as FX Swaps.

## 9. Offsetting costs

If you - for any reason whatsoever - want or have to terminate a derivative transaction before the term has expired, this may lead to significant costs. A derivative transaction is always related to the underlying value. For this reason, a derivative transaction is dependent on the fluctuations in the price, or the exchange rate of this underlying value. With Franx, it is not possible to terminate a FX Forward transaction

during its term. However, you have the option to 'offset' the FX Forward transaction. In this case, you will conclude another FX Forward transaction, which is the opposite of the first FX Forward transaction, for the same sum and currency, but with a new forward rate. The costs of Franx will again be included in this forward rate. Both transactions will be executed on the agreed value date:

- The original transaction will be executed first, at the original forward rate.
- Subsequently, Franx will execute the opposite transaction, at the new forward rate.

The difference between these two transactions will be settled with you. This may make you money (if the new forward rate is more favourable to you), but it may also cost you a lot of money.

## 10. Additional costs

Apart from the trading price, Franx does not charge any costs for Foreign Exchange Derivative Transactions. You pay a fee to Franx, which forms part of the agreed exchange rate (the trading price). For more information on the way in which the trading price is established, please refer to the information on the Order Execution Policy Foreign Exchange Derivatives Service Provision of Franx B.V.

## 11. Transaction confirmation

Transactions can be concluded via the Platform of Franx. The parties will be bound by a transaction as soon as it has been established. After the conclusion of the transaction, Franx will show you the transaction data on the screen for acceptance. Additionally, the transaction confirmation will also be provided to you digitally (in pdf format).

A transaction confirmation will state, among other things, the type of transaction, the date on which the transaction has been concluded, the date on which the transaction takes effect, the expiry dates, the fixation date, the transaction currency and sums. For more detailed information, see the CFEDSP.

## 12. Payments

Any payments ensuing from the transactions concluded will immediately be debited from or credited to your account with Franx. You can see all the credit and debit entries for your transactions on the Platform of Franx.

## 13. Commonly used terms in the Foreign Exchange Derivatives Service Provision Franx:

- 13.1 **Source:** Referral to a publication of exchange rates or interest rates.
- 13.2 **Cash settlement:** The settlement of a derivatives position against money instead of against delivery of the underlying value.
- 13.3 **Convention adjusted to next business day:** If one of the dates specified in the transaction confirmation falls in a weekend or on a public holiday, the next business day will be deemed the day of execution.
- 13.4 **End or expiry date:** The day on which the transaction ceases to exist. In the absence of an end date, the expiry date will be considered to be the end date.
- 13.5 **Fixation date:** The date on which a price, exchange rate or interest rate percentage is determined ('fixed') which applies to a settlement over a predetermined period.
- 13.6 **Physical settlement:** The settlement of a derivatives position by physical delivery of the underlying value.
- 13.7 **Principal amount:** The sum for which the settlement as agreed upon takes place.
- 13.8 **Effective date:** The date on which the transaction takes effect. In the absence of an effective date, the transaction date will be considered to be the effective date.
- 13.9 **Exchange rate:** A price at which a currency pair is traded at any moment in the spot market.
- 13.10 **Term:** The period from the effective date up to and including the end date.
- 13.11 **Reference price, interest, tariff or other value:** Reference, which constitutes the basis for a settlement, as agreed upon for the transaction.
- 13.12 **Spot market:** The global trade in currencies with delivery after two business days.
- 13.13 **TARGET business day:** TARGET (Trans-European Automated Real-Time Gross Settlement Express Transfer System) is the system via which all the payments in Euro between banks take place. Therefore, a TARGET business day is a day on which the TARGET system is open.
- 13.14 **Transaction:** Foreign Exchange Derivative Transaction between Franx and the client
- 13.15 **Transaction date:** The date on which a transaction is entered into.
- 13.16 **Settlement:** The way in which settlement takes place. If not stated otherwise, physical settlement will take place.
- 13.17 **Currency:** Monetary unit, for example, EUR or USD.
- 13.18 **Value date:** The day on which an amount starts to bear interest.

13.19 Business day: A day on which the commercial banks are open, payments can take place and interest rates can be reviewed in the place relevant to the transaction. In most cases this is the capital city of the country in which the transaction currency is the legal tender or in which the reference interest rate is published.