

# Bendigo Foreign Exchange Contracts

Product Disclosure Statement

23 February 2009

### About this document

This Product Disclosure Statement (PDS) is an important document. It provides you with information about certain types of Foreign Exchange Contracts (FEC) so that you can decide whether to acquire or enter into such contracts. You should read this document carefully before you decide whether or not to acquire or enter into FECs to which this PDS applies. You should also keep this PDS for your future reference. If you have any questions, please contact us.

This PDS does not constitute a recommendation or opinion that an FEC is appropriate for you.

The issuer of the products described in this PDS is Bendigo and Adelaide Bank Limited, ABN 11 068 049 178, AFSL No. 237879.

This PDS only applies where it is received by a person in Australia.

Information in this PDS may be subject to change from time to time. Where the change is not materially adverse, you will be able to find out the new information by contacting us on 1800 061 783 or by accessing the Bendigo Bank website at [www.bendigobank.com.au](http://www.bendigobank.com.au)

A paper copy of any updated information will be given to you on request without charge.

### Contact details

You can contact us at:

- Financial Markets  
The Bendigo Centre  
PO Box 480  
Bendigo VIC 3552  
Telephone 1800 061 783  
[www.bendigobank.com.au](http://www.bendigobank.com.au)

Alternatively you can contact us via:

- Bendigo Bank OnCall  
Telephone 1300 366 666

Banking consultants who can provide you with information on accounts  
8am – 8pm Monday to Friday (Victorian time)  
9am – 4pm Saturday (Victorian time)  
10am – 4pm Sunday (Victorian time)

- The Bendigo Bank website at [www.bendigobank.com.au](http://www.bendigobank.com.au); or
- Customer Help Centre  
Telephone 1300 361 911  
8.30am – 7.30pm (Victorian time)  
Monday to Friday

Note: Telephone conversations with Bendigo and Adelaide Bank Financial Markets may be recorded for dispute resolution purposes.

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## Foreign Exchange Contract product features

### What is a Foreign Exchange Contract?

An FEC is an agreement between two parties to exchange on a specific future date (the value date), a fixed amount of one currency for an amount of another currency calculated at a foreign exchange rate agreed on the day the agreement was entered into or booked (the trade date).

A foreign exchange rate is the price at which one currency (the base currency) is bought or sold, expressed in terms of another currency (the terms currency). For example, the exchange rate for AUD/USD of .6551, means one Australian dollar is equal to 65.51 US cents.

The base currency and the terms currency is referred to as the currency pair. The currencies forming the pair must be those acceptable to Bendigo and Adelaide Bank. The currencies which are acceptable to Bendigo and Adelaide Bank currently are:

Currency	Code
Australian Dollars	AUD
United States Dollars	USD
Euro	EUR
British Pound	GBP
Japanese Yen	JPY
Singapore Dollar	SGD
New Zealand Dollar	NZD
Hong Kong Dollar	HKD
Canadian Dollar	CAD
Thai Baht	THB
Indonesian Rupiah	IDR
Swiss Franc	CHF
Fiji Dollar	FJD
Indian Rupee	INR
Phillippine Peso	PHP
South African Rand	ZAR
Swedish Kroner	SEK
Norwegian Kroner	NOK
Danish Kroner	DKK

## Bendigo Foreign Exchange Contracts

This PDS covers the following types of FECs:

- a) "Spot FEC": This is an FEC which has a value date which is two business days after the trade date;
- b) "Forward" FEC: This is an FEC which has a value date which occurs later than two business days after the trade date; and
- c) "Value Tomorrow" FEC: This is an FEC which has a value date which occurs on the business day after the trade date.

### How a Foreign Exchange Contract works

An FEC is commonly used as a hedging tool to fix current exchange rates for a value date. It may also be entered into for investment purposes. The rate agreed for the contract remains fixed irrespective of movements (of rates which impact on foreign exchange rates, for example, interest rates) or other events which impact on the foreign exchange markets subsequent to the trade date.

The rate that is quoted by us for a value date, is not based on a prediction of where the exchange rate will be on the value date but is the "spot rate" (as explained below) plus a "forward margin" which represents the difference between the prevailing interest rates for the currency pair over the period from the trade date to the value date (the interest rate differential) determined by us.

The spot rate is the foreign exchange rate applicable for a value date two business days after the trade date (the spot date) adjusted for a buy-sell spread that takes into account the following matters on the trade date:

- spot exchange rate in the inter-bank market (which is the market in which banks transact with each other);
- market conditions (for example, volatility which is the degree of volatility in the spot exchange rate or forward exchange rate in the inter-bank market);
- an allowance for our costs and risks; and
- the size of the transaction (that is the amounts of the relevant currency pair).

For example, 'carded rates' used for small branch transactions (for example, foreign currency drafts or traveller's cheques) typically have a much wider buy-sell spread than FEC's. Whilst this buy-sell spread is not a fee nor a commission, it does impact on the Australian Dollar (A\$ or AUD) equivalent of foreign currency amounts.

When asking for a foreign exchange rate, it is important to identify:

- a) the name of the entity in which the contract is to be written (for example, the company name, which has an FX limit established with us);
- b) the currency pair involved; and
- c) the value date for the contract.

### Terms and conditions

An FEC is a legally binding bilateral obligation between you and us. Terms and conditions applicable are set out in the letter of offer sent to you by us and if one has been executed, the terms of a master agreement (such as the Australian Financial Market Association's Foreign Exchange Master Agreement or the ISDA Master Agreement), or other terms agreed on a case by case basis.

### Delivery obligations

#### Delivery on the value date

Once agreed upon (on the trade date), the FEC defines an obligation of each party to deliver a fixed amount of a currency at the fixed rate on the value date. When you enter into an FEC with us you agree to deliver one currency in exchange for another currency, at a fixed rate on the value date. How much you pay is determined by the commercial terms of the FEC negotiated on the trade date.

How much you pay may be netted off against amounts payable to you by us under the FEC or another transaction between you and us such that the obligation may ultimately become an Australian Dollar difference payable by one of us to the other. The ability to net transactions may be governed by the master agreement between you and us (if one has been executed) or other terms agreed on a case by case basis.

#### Pre-deliveries

You can make arrangements for pre-deliveries. What this means is that, having booked an FEC for a specific value date, you may wish to utilise the FEC prior to maturity on the value date, for example, if an invoice arrives ahead of expectations. In this instance, part of (or the whole of) the delivery obligations under the FEC can be brought forward to a specified date (the pre-delivery date), which will have the effect of reducing the amount of the payment obligations of both you and us on the original value date. The foreign exchange rate for the remaining balance is unchanged, however the foreign exchange rate applicable to the pre-delivered currencies will be based on the original foreign exchange

rate adjusted by the interest rate differential determined by us between the two currencies for the period between the trade date and the pre-delivery date, and any funding implications for us (for example, additional costs) arising from the early delivery of the FEC.

#### Historic rate roll-overs

We will not undertake or permit historical rate roll-overs (that is the extension of the term of an FEC at a foreign exchange rate based on the foreign exchange rate applicable under the FEC) if you are a retail customer of the bank. Instead, delays in the underlying currency exposure can be managed by you through a foreign exchange swap contract, to meet your obligations under the FEC while maintaining the underlying hedge achieved by the FEC. This may crystallise an unexpected cash-flow, and needs to be carefully considered for your particular circumstances. For details on foreign exchange swap contracts, please obtain a PDS relating to them from your dealer, International Trade Manager or Customer Help contact.

#### Dealing with Bendigo and Adelaide Bank

We offer FECs to customers who have a formal 'FX limit' in place with us facilitating these transactions, or in some circumstances on a cash secured basis.

FEC's may be entered into or booked through any of the following channels:

- over the phone with your foreign exchange dealer at Bendigo and Adelaide Bank; or
- through your International Trade Manager at Bendigo and Adelaide Bank.

On each occasion, you will receive a confirmation of the transaction, which should be carefully checked. Any disagreement with the confirmation should be acted upon immediately to ensure that the commercial terms of the transaction is accurately recorded. Confirmation notices must be signed by an authorised representative of your company, and must be faxed back to Treasury Settlements within one business day of the FEC being booked.

## Significant benefits and risks

### Benefits

FEC's are typically used to manage exchange rate risk associated with international trade activity, importing, exporting, and in anticipation of foreign currency accounts receivable and payable. An FEC may also be used to hedge risks under foreign currency loans and deposits. Occasionally, it may be used as an investment.

An FEC guards against unexpected movements in exchange rates between the trade date and the value date, and provides greater certainty in cashflow management, accounting and budget forecasts.

The decision to utilise FEC's may be driven by the benefits of certainty in pricing, rather than necessarily a view on where rates may move in the future. We do not provide personal advice on possible future direction of exchange rates, but rather general comments regarding markets and factual statements regarding economic conditions and indicators.

Examples:

- a) Assume an Australian importer receives an invoice for USD 200,000 due for payment tomorrow. If the importer books a 'value tomorrow' FEC with us, the pricing is based on:
  - i) the AUD/USD spot rate for example, .7126
  - ii) the interest rate differential (also referred to as the 'value tomorrow points') for example, .00005
  - iii) so the forward exchange rate in this example is .71265

In this example the cost in AUD (to be paid to Bendigo and Adelaide Bank tomorrow) is:

$$200,000 / .71265 = \text{AUD } 280,642.67$$

The contract obliges us to pay USD 200,000 tomorrow to the importer in exchange for AUD 280,642.67 (which the importer pays to us).

- b) Assume an Australian exporter expects to receive EUR 50 000 in 32 days. If the exporter books a forward FEC to hedge this foreign currency receipt, the pricing is based on:
  - i) the AUD/EUR spot rate for example, .6089

- ii) the interest rate differential (also referred to as the 'forward points' for 32 days for example, .0014
- iii) so the forward exchange rate in this example is .6075

In this example the proceeds in AUD (to be paid by us in 32 days) is:

$$50,000 / .6075 = \text{AUD } 82,304.53$$

The contract obliges us to pay AUD 82,304.53 in 32 days in exchange for EUR 50,000 (which the exporter pays to us).

**Risks**

Foreign exchange markets are inherently risky and unpredictable. Before you enter into FEC's, you need to understand the mechanics of financial markets and the possible ramifications of movements (of rates which impact on foreign exchange rates) or other events which impact on the financial markets. These can have significant impact on your obligations under the FEC, including the amount payable by you to us.

Significant risks associated with an FEC include -

**Credit or Counterparty Risk** - the risk that a counterparty may not be able to meet their obligations;

**Basis Risk** - the risk that a transaction may not fully mitigate the inherent risk due to differences between the FEC and the underlying exposure;

**Market Risk** - the risk that movements in exchange rates may adversely affect the owner of the contract. (Normally an FEC will insure against unexpected movements, however should an underlying exposure such as, an account receivable be cancelled, unwanted risk may arise);

**Interest Rate Risk** - an FEC incorporates an interest rate differential between two currencies for the period between the trade date and the value date: if a pre-delivery is required, fluctuations in interest rates may adversely impact on the hedge.

It should be noted that an FEC may become 'in the money' or 'out of the money' depending on how markets move after the trade date. This does not change the obligation to exchange currency on the value date at the fixed rate agreed to on the trade date.

There is no cooling off period applicable to FECs.

**Fees and commission**

There are no fees or commissions payable with entering into or booking an FEC. We derive a financial benefit through the floating exchange rate applicable to each FEC.

However:

- a) There will be an establishment fee payable at the time a formal "FX line" is established. The amount of this is determined by us at the time the FX line is established and is equivalent to 0.5% of the applicable limit (but no less than A\$500), subject to any reduction that we may agree to
- b) There may also be fees associated with telegraphic transfers and drafts, as follows, which are payable on the delivery dates (whether the value date or pre-delivery date):

**Telegraphic transfers (international)**

Issue of telegraphic transfer .....\$30.00

(unless you are a Bendigo and Adelaide Bank shareholder, in which case the fee is \$15.00)

This fee applies if you ask us to transfer funds by telegraphic transfer.

Return of telegraphic transfer .....\$50.00

This applies if you request the return payment of a telegraphic transfer. The minimum telegraphic transfer size is A\$200.

**Bank draft fees**

Issue of bank draft .....\$10.00

(unless you are a Bendigo and Adelaide Bank shareholder, in which case the fee is \$5.00)

Refund of bank draft.....\$10.00

Repurchase and reissue of bank draft.....\$20.00

Stop payment on bank draft ..... \$25.00

## Privacy

1. This applies if you are an individual or, if you are not an individual, to individuals about whom we collect personal information in relation to your account. You agree to show this clause to all individuals who you have authorised to deal with us in relation to your account.

We are committed to ensuring your privacy is protected and understand your concerns regarding the confidentiality and security of personal information you provide to us.

### Collection and use of information.

2. We collect and use your personal information in order to provide you with financial products and services. To do that, we may disclose your personal information to regulatory bodies or government agencies in order to verify your identity or to authenticate a document you provide to us.
3. We may also disclose your personal information to organisations that carry out functions on Bendigo and Adelaide Bank Group's behalf such as mailing houses and information technology service providers. Confidentiality agreements with these entities ensure this information is only used to carry out functions on the Group's behalf.
4. This information may also be shared with the Bendigo and Adelaide Bank Group and our joint venture partners so that you can be told about other financial products and services offered or distributed by us.

### Address and correction.

5. In most cases, you will be able to gain access to personal information about you held by the Bendigo and Adelaide Bank Group. We will take reasonable steps to amend or correct your personal information to keep it accurate and up-to-date. Our Customer Help Centre will co-ordinate requests relating to access and correction of your personal information.

### Opting out of product promotions.

6. You can opt at any time not to receive any marketing material from us about other financial products and services. If you do opt out, we will continue to make contact with you to provide information in relation to your existing accounts only (including information about new features or products related to these accounts).

### Privacy concerns or complaints.

7. If you have concerns or wish to make a complaint regarding the treatment of your personal information by Bendigo and Adelaide Bank Group please contact our Customer Help Centre for assistance on 1300 361 911.

### Further information.

8. You can obtain more information about privacy in our Privacy Policy which is available upon request at any of our branches or on our website [www.bendigobank.com.au](http://www.bendigobank.com.au)

## Tax

The information in this section is general information only.

You should consult your own independent professional adviser regarding the tax consequences of acquiring, holding or disposing of FECs, to take into account your own personal circumstances.

### **New regime for taxing foreign currency gains and losses**

The Australian Commonwealth Parliament has enacted legislation which provides for a new taxing regime in relation to foreign exchange gains and losses on transactions entered into from 1 July 2003 for most taxpayers. (Private or domestic transactions require special consideration as those transactions may be exempt from the new foreign exchange rules).

This legislation also introduces a general translation rule that converts foreign currency denominated amounts into Australian dollars.

In general terms, the new foreign exchange rules may apply to you if certain events (referred to in the tax legislation as "forex realisation events") happen to you. Relevantly, the new rules may apply if you dispose of foreign currency or a right to receive foreign currency, you cease to have a right or obligation to receive foreign currency (for example where that right or obligation is satisfied by the payment to you of foreign currency), or you cease to have a right or obligation to pay foreign currency.

Any forex gain you make as a result of a forex event must be included in your assessable income in the income year in which the forex realisation event happens. Correspondingly, any forex loss you make can be deducted from your assessable income in the income year in which the forex realisation event happens.

The tax implications arising from FECs are complex. You should consult your own independent professional adviser regarding the tax consequences arising from the new rules to take into account your own personal circumstances.

### **Tax File Number withholding rules**

The Tax File Number withholding rules only apply to certain investments (referred to in this paragraph as "Special Investments") as set out in the income tax legislation. Those withholding rules do not apply to FECs as those contracts are not Special Investments for the purposes of the Tax File Number withholding rules.

## Anti money laundering

We are committed to the regulatory requirements for anti-money laundering and counter terrorism financing (AML).

To comply with these requirements we may:

- require you to provide to us, or otherwise obtain, any additional documentation or other information;
- suspend, block or delay transactions on your account, or refuse to provide services to you;
- report any, or any proposed, transaction or activity to any body authorised to accept such reports relating to AML or any other law.

## Problem and dispute resolution

We have an internal dispute resolution process. You can access this process by contacting us at:

Customer Help Centre  
Phone 1300 361 911  
8.30am – 7.30pm (Victorian time)  
Monday to Friday

When we receive a request for the resolution of a dispute, we will:

- acknowledge receipt of that request promptly;
- investigate the dispute; and
- if necessary, decide upon appropriate action.

At your request we will provide you with more detailed information about this dispute resolution process including details of the time in which we will respond to you.

If the dispute has not been resolved in a manner acceptable to you, we will provide you with a written statement of reasons for the decision and inform you of any recourse available to you, including any avenue of appeal against our decision to an independent external dispute resolution service.

We are a member of the Financial Ombudsman Service. You can contact the Ombudsman at:

GPO Box 3  
Melbourne VIC 3001  
Phone: 1800 78 08 08  
Fax: 03 9613 6399  
Website: [www.fos.org.au](http://www.fos.org.au)  
Email: [info@fos.gov.au](mailto:info@fos.gov.au)

This service is provided to you free of charge.

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