

prospero



Hedging Counterparty Policy

Issuer:
Prospero Markets Pty Ltd
ABN 11 145 048 577
Australian Financial Services Licence No. 423034
Date: 29 March 2021



Hedging Counterparty Policy

Introduction

This policy explains the methodologies used to manage market risk and to decide upon the size of Prospero Markets Pty Ltd (**Prospero Markets, we, us, our**) exposure limits for our counterparties. This policy has been developed with consideration of the ASIC Regulatory Guide 227.

Credit risk is the risk that a counterparty to Prospero Markets fails to perform its obligations which results in financial loss for Prospero Markets and its clients. Our management of credit risk is intended to protect the company and clients from any sudden changes in the liquidity, credit quality or solvency of our banks or liquidity providers. It is not intended to protect against losses due to market movement.

Prospero Markets primarily takes on market risk to facilitate instant execution of client trades, and therefore market risk limits are set by us at a level we can comfortably maintain. These limits are continuously reviewed depending on market volatility and may vary.

This document sets out Prospero Markets' policy regarding:

- I. Market risk;
- II. Credit risk; and
- III. Selecting and assessing counterparties.

I. Market Risk Mitigation, Monitoring and Reporting

We do not take proprietary positions based on an expectation of market movements. However, since Prospero Markets does not hedge all client transactions, we may have a net position in any of the markets on which we offer financial products. As such, we have exposure to market risk to the extent that we have a residual un-hedged position.

We have internal market risk procedures for setting limits, for every single financial market in which our clients trade, as well as certain groups of markets which we consider to be correlated. These rules limit the net exposure arising from client activities and hedging consistent with our risk management framework.

Our risk management systems allow us to continually monitor our exposure against these limits in real time and on a group-wide basis. We will take action when exposure is close to a limit or the limit is reached or exceeded. If our exposure exceeds the limits as a result of clients' activities, we will carry out sufficient hedging to bring the exposure back within the defined limit.

Changes to our internal market risk procedures require approval by the Board of Directors.

II. Credit Risk Mitigation and Reporting

We have internal counterparty credit risk procedures for assessing credit risk and setting credit risk limits. These procedures are reviewed once every twelve (12) months (or as otherwise necessary) , and presented to the Board for approval should any changes are proposed.

We review the credit quality of our major counterparties on an on-going basis, with a formal risk review for each counterparty performed at a minimum of once per year and more frequently if there is a significant change in market conditions or relevant news about the counterparty.

Our risk function monitors the exposures to each counterparty on a daily basis – at opening, closing and intra-day depending on the systems used by the counterparty.

It is our policy to reduce the risk of counterparty failure by setting each counterparty a risk assessed exposure limit and through diversification.

III. Minimum Criteria for Accepting Hedging Counterparties

We assess a potential hedging counterparty against a risk assessment of the counterparty against standard qualifying criteria and quantitative analysis that address whether they are of sufficient financial standing.

We do not accept a potential hedging counterparty unless they meet the minimum qualification criteria, which require the hedging counterparty to:

- have adequate financial and compliance resources, including consideration given to credit rating;
- have an adequate financial licence in its jurisdiction;
- hold client funds with a reputable bank and are subject to segregation; and
- have a good reputation within the financial industry.

Addition of new hedging counterparties or changes to existing counterparty limits require approval by the Board of Directors.

IV. List of Current Hedging Counterparties

Prospero Markets cooperates with the following hedging counterparties:

- FINALTO Financial Services Limited
- Forex Capital Markets Limited
- IS Prime Limited
- CMC Markets Asia Pacific Pty Limited

If you need any additional information, please feel free to contact us at info@prosperomarkets.com.