



**Key Information
Document**

**PSG Wealth
currency futures trading account**



This document is a summary of key information about the PSG Wealth currency futures trading account. It will help you understand the account and make an informed decision. This is a summary only. It is not a legal or binding document, nor should it be considered as advice. Before deciding to open an account, we suggest you read the whole document together with the terms and conditions.

About this account



What is a currency futures account?

Currency futures give you exposure to the exchange rate movements of several major international currencies (such as US dollar, euro or British pound) with minimum capital and without having to use your offshore allowance. They are legally binding agreements that give you the right to buy or sell an underlying currency at a fixed exchange rate on a future date.

How does a currency futures trading account work?

Each contract represents 1 000 units of the underlying foreign currency (such as \$1 000, €1 000 or £1 000). Currency futures are traded on the Johannesburg Stock Exchange (JSE), margined daily and guaranteed by the JSE clearing house. You do not require exchange control permission or an offshore trading account, as currency futures are rand-settled and investors therefore never own the physical underlying currency.

You are required to pay an initial margin ('good faith' deposit) upfront when trading in currency futures, which is held by the JSE. Interest is earned daily, and paid out monthly. When positions are closed the initial margin plus interest is paid back.

Profits and losses are settled daily in a currency futures account (variation margin). In the case where losses exceed the cash amount in currency futures accounts, you will receive a margin call, and be required to deposit a variation margin.

Example:

Joe is travelling to the USA in three months and wants to reduce his risk of a weaker USD/ZAR exchange rate when he buys his travellers cheques. If the rand weakens against the dollar, the foreign currency will be more expensive.

Hedging through currency futures contracts

To hedge against the risk of a weakening rand, Joe can purchase a currency futures contract. In doing so, Joe is able to lock in the current exchange rate of R13. One currency futures contract is worth \$1 000. If Joe plans to take \$7 000, he needs to buy 7 currency futures contracts. This makes his exposure \$7 000, equivalent to his exposure in the spot market or the amount of US dollars he will purchase for his holiday. The currency futures exposure of \$7 000 equates to a rand exposure of R91 000 (\$7 000 x R13).

Fortunately, the currency futures contract does not require Joe to deposit the full nominal exposure. Instead, he will only have to deposit the initial margin amount. The initial margin for this position would be about R14 000 (R2 000 initial margin x 7 contracts). It is important to note that this initial margin earns interest while the position is open and is paid back when the position is closed.

Offsetting exchange rate movements

After three months Joe is ready to buy his travellers cheques at the current exchange rate. Assuming the exchange rate has now moved to R13.20, the \$7 000 would now cost R92 400 (an extra R1 400). Joe is therefore expected to spend more than he initially anticipated.



Although Joe has essentially made a loss after buying the traveller's cheques (based on exchange rate movements), he has made a counteractive profit on the currency futures contracts. The currency futures position has made a profit of R1 400 $([R13.2 - R13.0] \times 1\,000 \times 7)$. Joe therefore sells his currency futures contract and uses the profit earned to offset the increased cost of the traveller's cheques. Joe has effectively paid R13 per US dollar when purchasing the traveller's cheques. He successfully locked in the USD/ZAR exchange rate of three months ago.

Who offers this account?



PSG Securities is a member of the JSE and registered with the Financial Sector Conduct Authority (FSCA). PSG Securities forms part of PSG Wealth, the brand under which this account is marketed.

Key features of the PSG Wealth currency futures trading account



Who is this account suitable for?

- Clients who want to use a geared product to have exposure to major international currencies.
- Hedgers seek to reduce risk by protecting an existing exposure. Hedgers have a real interest in the currency fluctuation and use futures as a means of preserving their performance.
- Speculators are directly opposite to hedgers. Where hedgers try to eliminate risk, speculators want to increase risk in the hope that they will make a short-term profit. Speculators enter into currency futures contracts in order to take a view on the movement of the underlying exchange rate.



Who is this account not suitable for?

- Clients who do not want to be subjected to volatile markets.
- Clients who want capital protection.



Minimum investment

There is no minimum and a trader can buy or sell as little as one contract. The contract size is 1000 of the underlying foreign currency in the contract at its futures rate, but you do not have to pay the full price of the futures position. You only need to pay enough money into your trading account to cover the initial margin, which is a fixed rand amount per contract (set at approximately 15% of the futures position). This means that you get more market exposure than you are paying for. The initial margin is always kept separate and cannot be withdrawn from your currency future trading account.



What can I trade?

The currencies available to trade against the rand on the Johannesburg Stock Exchange's Currency Futures Exchange are:

- US dollar
- Euro
- British pound
- Australian dollar
- Japanese yen
- Canadian dollar
- Swiss franc



Tax



Tax considerations

- As a trader of currency futures, all profits are deemed as taxable income. You are then taxed on profits or losses at your marginal tax rate.
- PSG Wealth provides yearly tax statements.

For any tax considerations, please consult your financial adviser or tax consultant.

Access to your investment

- You can view your currency futures account online anytime by logging onto our secure website.
- You can trade currency futures during JSE trading hours.
- The cash from the sale transaction will be available immediately for the next purchase transaction.
- Cash is only available for withdrawal after one business day.
- Depending on your bank, the transfer can take a further two business days.

Can I use the account as security for a loan?

No.

Is it protected against my creditors?

No.

Can I transfer my currency futures trading account to another stockbroker?

Yes.

What happens if I die?

Your currency futures account forms part of your estate and may be subject to tax.

Benefits



What type of benefits can I expect?

- Currency futures are a cost-effective way to gain exposure to currency markets.
- Currency futures do not utilise your offshore allowance and do not require exchange control permission.
- Currency futures are characteristically liquid and easily traded.
- With margin requirements of approximately 15% of the total exposure, currency futures provide a highly capital efficient way to participate in the currency market. You can short (sell) futures, benefiting from a depreciating currency.
- The pricing of currency futures is transparent.
- Wholesale interest rates are used in pricing and trading these instruments even for a retail investor.
- Currency futures are exchange regulated and are guaranteed by the JSE'S clearing house. This means that even if the counterparty is unable to pay their losses the clearing house will ensure that any profits due are paid.
- Direct market access (DMA), which means that you can trade directly on the exchange without PSG adding to the ruling bid/offer spread.
- You may subscribe to live prices.



Risks



Can I lose money?

Yes, your returns may not perform as expected. Your position is linked to currency movements and is not guaranteed.

It is important to ensure that you are comfortable with the level of risk your chosen investment instruments carry. You are not able to transact on an instrument suspended by the JSE. If you are unsure of how to invest, a financial adviser may help you to make appropriate choices.

Fees



What fees will be charged?

- An administration fee of R42 per month (excluding VAT) is charged.
- Brokerage fee of R17.54 (Excluding VAT). If the contract is opened and closed on the same day, only the opening leg is charged.
- The funding or earning interest rate applicable is determined by the JSE central order book.

Before you decide



Before you decide whether or not to open an account, it is recommended that you consider the following:

Each currency future is unique and comes with its own associated risks, including volatility. This might not be a suitable investment for all investors and will depend on your risk appetite and the time you have on hand to watch the currency markets. It is advisable to educate yourself about currencies and the principles of trading.

1. Compare this account with other trading accounts that could also meet your financial needs. These could include:
 - Other types of equity linked products such as [unit trusts](#) and offshore investments.
 - Other types of derivative products such as [single stock Futures](#), index futures, [contracts for difference](#), [currency futures](#) and international SSFs.
2. A Key Information Document like this one has to be produced for all financial products to help you make these comparisons. Find Key Information Documents for other products that could suit your needs or ask your financial adviser to get these for you.
3. If you do not have a financial adviser, consider whether an authorised financial adviser could help you to make appropriate financial decisions. If you obtain advice, insist that your adviser gives you proof that he or she is qualified to advise you on this type of product. You should also get full details of the fees, commission or incentives your adviser will get if you invest in this product with his or her assistance.

This document is only a high-level summary of the PSG Wealth currency futures trading account. We encourage you to ask further questions. You should also read the detailed terms and conditions for the PSG Wealth currency futures trading account, which you can request from us. You can get more information from your financial adviser or from PSG Wealth directly: email clientservice@psg.co.za, call 0860 774 774 or visit www.psg.co.za.



PSG Wealth offers a range of unit trusts and multi-managed portfolios, each with different underlying instruments. Make sure you read their Minimum Disclosure Documents (MDDs) for important information on investment fees, risks and objectives. You can request the relevant MDDs from us.

Ask PSG Wealth or your financial adviser to give you details on the overall impact of investment fees on your investment over time. Also ask for information on the past performance of the underlying instruments you want to include in your investment, but remember that past performance is not a guarantee of future performance.