DNA MARKETS

Hedging Policy

1. Introduction

Focus Markets Pty Ltd, trading as DNA Markets, (“we”, “us”, our”) endeavours to maintain and develop appropriate policies and procedures surrounding risk management and mitigation. This Hedging Policy outlines the steps we take to control and reduce market risks that could adversely affect DNA Markets and our clients. We have created this policy in accordance with our obligations under ASIC’s Regulatory Guide 227.

To understand the risks to our business, we set out to monitor and actively surveil global markets, key risk events and the trading activity of our clients. To manage risk, we engage external hedging counterparties. Our hedging counterparties provide us with market prices which may be used as a price feed or reference rate. This is a basis for our own CFD prices and a way that we can offset or ‘hedge’ our client trading activity.

2. Hedging Criteria

2.1 There are several factors we take into consideration when determining if, or how, we hedge. These factors include, but are not limited to:

- **Neutral Exposure:** This is where hedging may not be required (or we can hedge smaller amounts) because we have both buyers and sellers of the same CFD.
- **Toxic Trades:** This is where a client, or a group of clients, may deploy techniques to exploit the platform and our pricing.
- **Volume**: This is where there is a large volume of trades, or a total trade size, that is more than internal limits.
- **Liquidity**: This is where there is insufficient liquidity in the underlying market.
- **Performance**: This is where we look at the performance of a trading account or group of accounts.
- **Cash Balance:** This is where an amount of funds deposited may also exceed our internal risk limits.

3. Hedging Counterparty Criteria

3.1 Before engaging additional liquidity provider counterparties, DNA Markets will conduct due diligence. This is where prospective counterparties are subject to a review which addresses all pertinent factors, such as the:

- legal power of the counterparty to enter into the contract;
- sufficiency or enforceability of legal documentation;
- compliance with regulatory requirements; and
- management and security of documents.

3.2 One factor in our selection of hedging counterparties is whether the entity is of sufficient financial standing. DNA Markets considers the following criteria when determining financial standing:

- whether the counterparty is appropriately licensed and regulated by an independent body in the relevant jurisdiction;
- whether the counterparty has strong financial and compliance (including risk management) resources;
- whether the counterparty has been independently rated by a ratings house (for example Standard & Poor's); and
- whether the counterparty has a proven track record in relation to OTC products.

The hedging counterparty must meet at least three (3) out of the four (4) criteria listed above and all other due diligence processes must have been undertaken.

3.3 DNA Markets' counterparty due diligence processes include:

- the due-diligence process in relation to the 'Know Your Customer' obligations under the *Anti-Money Laundering and Counter-Terrorism Financing Act 2006* (Cth) ('AML/CTF Act');
- up-to-date company financial records and documents;
- DNA Markets' exposure limits reflecting a mix of economic and financial indicators;
- non-financial indicators, such as management quality, business strategy, reputational risk and any evidence from prior business relationships.

3.4 DNA Markets additionally recognises that it is essential to have an ongoing understanding of the financial health of our counterparties at all times. Therefore, to ensure ongoing sufficient financial standing, DNA Markets undertakes proactive measures, including annual due diligence on all existing counterparties.

4. Our Hedging Counterparties

4.1 DNA Market's hedging counterparty, by way of Focus, is:

- Eightcap Pty Ltd (authorised and regulated by ASIC in Australia).