

KVB KUNLUN PTY LTD

Counterparty Risk Management Policy

Counterparty risk is the risk to each party of a contract that the counterparty will not live up to its contractual obligations which is also otherwise known as default risk.

KVB Kunlun Pty Ltd have implemented a two-fold solution to hedging exposures from client transactions.

With regard to transactions by smaller clients, we generally seek to manage our market exposures in-house through the natural hedge created by the exposures generated by various client transactions.

With regard to transactions by professional/institutional clients, and where there is a significant differential in the natural hedge created by our in-house risk management regarding smaller client transaction exposures, we fully hedge the exposures generated, with reputable licensed third party financial services providers (see below) to as far as possible ensure that we do not have any unhedged market exposures.

In accordance with our risk management procedures and controls we monitor all of our trading exposures on an intraday basis which includes among other matters monitoring risk concentrations to asset classes or industries as well as estimated exposures, both gross and net, to all counterparties and providing effective and coherent reports to senior management regarding such exposures to high-risk counterparties and acting in relation to these in a timely and efficient manner.

As set out below our policy synthesises risk measurement and reporting techniques paired with comprehensive credit risk policies aiming to provide protection against credit risk losses.

Counterparty risk – assessment of our hedging counterparties

Our assessment of our hedging counterparties has two parts.

The first is the initial assessment of each potential counterparty to ensure they are of sufficient financial standing, are licensed by a comparable regulator, and are of sound reputation referred to as Counterparty Initiation.

The second is ongoing monitoring of our hedging counterparties on a regular basis to ensure that they remain of sufficient financial standing.

Please note that we use multiple hedging counterparties or in the case where we are fully hedged with a parent or related company we ensure that they in turn use a number of different regulated counterparties to ensure that exposure to any one counterparty is limited and within set credit limits.

Counterparty Initiation

Counterparty initiation refers to the first time we intend to enter into a transaction with a proposed counterparty. We undertake a review of the proposed counterparty which includes considering available public information, credit agency reports and the most recent financial statements showing its paid-up capital, assets and liabilities. In addition we undertake searches of the relevant

regulators databases to confirm that the proposed counterparty holds all the necessary licences and/or authorities.

Contracting standards refer to the types of contracts that may be entered with an approved counterparty. We ensure that contracts entered into with approved counterparties as far as possible mirror the terms of our agreements with our clients to ensure that we have a similar ability in relation to margin requirements and closing out positions.

Counterparty Monitoring

The financial status of each of our approved counterparties is monitored on a regular and ongoing basis in order to proactively detect situations where counterparty credit quality might deteriorate. Each separate legal entity is considered a separate counterparty regardless of its relationship to another entity. The purpose of this is to ignore the status of a financially sound parent company since for example contracts entered into with a subsidiary (even of a highly rated company) may provide little to no financial protection in the event of a default by that subsidiary.

Credit Limits and Credit Risk

Credit limits refer to the amount of credit risk that we may take in relation to an approved counterparty. We set credit limits on an aggregate basis for each of our approved counterparties and monitor our operations to ensure that these limits are not exceeded. In setting these credit limits we take account of current as well as potential future exposure to that counterparty. We have further implemented an exception policy to deal with situations where credit limits are inadvertently or deliberately breached.

We regularly address credit risk across our organisation and in so doing consider aggregate receivables, potential future exposure, and aggregate collateral and sensitivity of exposure to key economic factors/drivers.

Collateral Collection

As a tool to mitigate credit risk we ensure that we collect collateral with respect to transactions with our clients and maintain ongoing diligence with respect to enforcing collateral requirements. This may include forcibly closing out a position for failure to provide collateral.

General ongoing supervision

We have a designated compliance officer who monitors our compliance with our licence conditions and ASIC RG 166 (financial) obligations, as well as review and input from our independent external legal and accounting advisers. Further, our external independent auditor conducts an audit at the conclusion of every financial year, a copy of which can be provided to you upon written request.

This enables us to undertake regular and rigorous assessments of our funding and asset liquidity risk taking into account: (i) the duration, stability and breadth of our funding, (ii) the degree of our reliance on collateral, (iii) the strength and permanence of our capital, and (iv) the potential for market losses under stress conditions including the additional impact of partial asset liquidation.

We undertake stress testing on a daily basis to market exposures, as we aim to fully hedge all transactions with clients, with reputable licensed third party financial services providers.

Our current approved hedging counterparties

KVB Kunlun New Zealand Limited
Saxo Bank
Deutsche Bank
Commonwealth Bank of Australia