

Saxo Update

Background

On 9 December 2013, Saxo Capital Markets (Australia) PL (“**Saxo**”) notified BBY (“**BBY**”) of its amendments to the Institutional Trading Agreement, which took effect on 1 April 2014:

- **1 April 2014 to 31 August 2014:**
33.33% of the net balance as at 31 March 2014 of total client cash received in respect of the Trading Platform, any contract, Securities, and any amounts standing to the credit; less total client cash paid in respect of the Trading Platform to be held in the Saxo Platform.
- **1 September 2014 to 30 November 2014:**
66.67% of the net balance as at 31 March 2014 of total client cash received in respect of the Trading Platform, any contract, Securities, and any amounts standing to the credit; less total client cash paid in respect of the Trading Platform to be held in the Saxo Platform.
- **1 December 2014 and thereafter:**
100% of the net balance as at 31 March 2014 of total client cash received in respect of the Trading Platform, any contract, Securities, and any amounts standing to the credit; less total client cash paid in respect of the Trading Platform to be held in the Saxo Platform.
- **1:1 funding from 1 April 2014 and thereafter:**
From 1 April 2014, BBY is required to observe the 1:1 funding rule. Under the 1:1 funding rule, all client cash are required to be held in the Saxo Platform. The 1:1 funding rule was further amended on 12 September 2014 as agreed with Saxo, where BBY is required to observe the 1:1 funding on a weekly netting basis: The net balance of all client deposits less withdrawals plus movement on house accounts are settled with Saxo on a weekly basis.

We are still reviewing the movements on this weekly report as there are still variances between our movements and what the report highlights.

Payments to Saxo - for 31 March 2014

BBY has thus far met the first two instalment payments.

- 1 April 2014:
 - amount in platform of A\$13,878,278.

- 1 September 2014:
 - Additional Amount in platform of A\$13,878,278.

- 1 December 2014:
 - o/s

Capital Constraint

The underlying deposits are reviewed as part of our bank facility granted by St George for the BBY clearing business. In order to maintain our deposit levels, we are in the process of redeeming some investment assets (convertible notes) of \$22.5m which were initially scheduled to settle in November 2014.

We have now been advised by the investment company that the redemption will take place in April 2015 due to a delay in project financing.

Therefore BBY will not have sufficient deposits to continue meeting the banks facility assessment. This will result in a reduction in the current credit limit or worst case a termination of the facility which will drastically affect our main revenue streams.

Proposed solutions to consider

Option A: Postpone 1 December 2014 instalment payment + Selling BBY Saxo Business to Saxo to reduce our compliance and back office workload.

1. Request that we postpone the 1 December 2014 instalment payment to May 2015; and
2. Enter into an agreement for Saxo to acquire our BBY Saxo client base effective 1 July 2015:
 - BBY will in effect become an introducing broker client of Saxo from 1 July 2015 under the current revenue splits

BBY Saxo client base data – as at 30 September 2014:

	12 months average
Trading Statistic:	
Total Commissions (AUD) / mth	\$ 250,177.69
Total AUM (AUD) - current	\$ 74,590,207.88
Net Trade Volume (AUD) / mth	\$ 815,811,165.13
No. of Trades / mth	10,058
No. of trading customers / mth	891
Client Statistic:	
Active Customer	1,240
Non Trading Customer	346
Dormant Customer	5,145
Inactive Customer	507
Never Trading Customer	922
Funded Customer	11
Never Funded Customer	3,655
Approved Customer	59
Total no. customer - current	11,885

Option B: Terminate our Saxo relationship and open account with another provider

If option A is not feasible, BBY to consider terminating the current White Label Agreement with Saxo.

Based on the notice period, the unwinding period will be duration of 6 months:

- Encourage migration of current clients & positions onto another platform, or otherwise close out positions
- Migrating clients and positions onto another platform

Legal considerations:

As outlined in the current BBY Online Trader PDS, we are allowed to suspend the operation of the online trading platform without prior notification to our clients.

It is also outlined in the PDS that BBY can select its counterparty for each trading platform in accordance with BBY’s counterparty selection policy, and BBY will perform on-going review of counterparty suitability.

BBY current disclosures will allow BBY to move all client positions onto a new platform provider, but further legal review should be performed and require update to the current PDS.

Alternate platform providers:

There are current 3 alternate platform providers that have given proposals

- CMC Markets
- IG Markets
- Interactive Brokers (currently being used)

The preferred platform provider is CMC Markets due to its flexibility in migration, HIN solution, leverage and deposit requirements. This all can be done in the required timeframe for May 2015.