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OTC Intermediary Compliance
Market Supervision
Australian Securities and Investments Commission
Level 7, 120 Collins Street
Melbourne, VIC 3000

By email: Market.Supervision.OTC@asic.gov.au

Dear OTC Intermediary Compliance Team,

Re: ASIC Consultation Paper 322 *Product Intervention: OTC binary options and CFDs*

Pepperstone Group Limited (“**Pepperstone**”) welcomes the opportunity to comment on the ASIC’s “Product Intervention: OTC binary options and CFDs” consultation paper (“**CP 322**”).

Who is Pepperstone?

Pepperstone is a global over-the-counter (“**OTC**”) derivatives broker that was established in 2010. Pepperstone is licensed and regulated by the Australian Securities and Investment Commission (“**ASIC**”). The Pepperstone group also holds a Financial Conduct Authority (“**FCA**”) authorisation and has recently been granted in-principle approval for a Category 4 licence by the Dubai Financial Services Authority (“**DFSA**”), via its locally incorporated subsidiaries in the United Kingdom (“**UK**”) and Dubai International Financial Centre, respectively.

Pepperstone contributed to and fully supports the CP 322 consultation submission made by the CFD & FX Association (“**Association Submission**”).

While we are supportive of improving standards across the industry, we are concerned that some of the requirements in CP 322 are overly stringent, and do not allow for investors who understand and accept the risks associated with trading our products to trade the way they require. We are concerned that this restriction on investors’ freedom of choice will result in them seeking alternatives outside of Australia, even if it means trading outside of a regulated jurisdiction. We have spoken with a number of our clients who have expressed their preference to remain with a licensed broker under the Australian protections but who believe these proposed restrictions will force them to move to brokers who can offer higher leverage (i.e. unlicensed or offshore).

We believe there is a way to ensure that vulnerable investors are adequately protected, while still allowing experienced and knowledgeable investors to access the products they want without having to give up retail investor protections or trade in an unregulated environment.

We are also concerned that the recommended timeframes for implementation of the proposals outlined in CP 322 are not practically or commercially feasible for issuers given the number and materiality of the changes. The short timeframes may also impact investor abilities to prepare for a new trading environment that will require them to make some fundamental changes to the way they trade and the trading tools they use. We have calculated that we will likely need at least 12 – 14 months in order to implement the requirements. We explain the specifics of why we need this additional time in more detail below.

Overview of Pepperstone’s business model

Pepperstone’s business is operated in the following way:

- we do not conduct any cold-calling;
- we do not provide personal advice;
- we do not have a dealing desk and all pricing that we offer investors is from reputable, unrelated, third party liquidity providers;
- we do not manipulate the prices that we receive from our liquidity providers, although we apply a standard minor spread mark-up;
- investors can easily choose to trade at leverage levels below the levels we offer (in other words we do not force investors to trade at particular high levels of leverage);
- we have historically imposed leverage limits during significant and highly volatile events to assist clients to moderate trading e.g. Trump election, Brexit;
- we provide our clients with ongoing education material and regularly communicate with them about market events and news that could impact their trading;
- we generate predominately fee-for-service revenue, with only 3.7% of our revenue attributable to investor losses; and
- while we do consider matters on a case by case basis, we have been providing negative balance protection to our clients in the majority of cases for the last 2 years.

A typical Pepperstone client

Pepperstone’s primary client type is a “switcher” – being someone who has traded with another retail OTC derivative issuer who then decides either to solely trade with Pepperstone or who trades with both Pepperstone and another issuer.

Many of our clients use expert advisor (“EA”) systems. We also support “scalpers” - investors that trade based on a set of real-time analysis. The purpose of scalping is to make a profit by buying or selling currencies, holding the position for a very short time and closing it for a small profit.

These clients are more sophisticated and experienced than traditional retail investors, but often fall short of the “wholesale” qualifications.

Our clients generally like trading with leverage because it provides them with the capability to utilise small amounts of capital to access far greater buying power. Many of our clients will trade

in micro-lots (for example, 0.01 – 0.1 lots) and this is the trading size that we recommend for new investors. We have a trading lot limit of 100 lots.

In fact, in the last 90 days, the average lot size of trades on our main trading server is as follows:

- < 0.01 Lots: 0.26%
- 0.01 - 0.05 Lots: 55.87%
- 0.05 - 1.0 Lots: 38.71%
- 1 - 2 Lots: 2.93%
- 2 - 5 Lots: 1.36%
- 5 - 10 Lots: 0.48%
- 10+: 0.4%

Also, in the last 90 days, 94% of Pepperstone clients closed their trades in less than a day. Overall, over 78% of all individual trades were closed in less than a day.

Leverage and micro-lot trading allows investors the freedom to move in and out of positions quickly, making small but significant profits in small market movements. It allows investors to diversify across a far broader range of products and positions than would otherwise be possible, and gives them an opportunity to hedge exposure they may have to the traditional underlying assets for minimal outlay.

This can be illustrated using ASIC's example of "Tim" and "Jenny" in CP 322. Tim would not have been able to place the trade in the example with a Pepperstone trading account, because that position would equate to approximately 297 lots and we limit trading to 100 lots. Instead, we will look at a scenario where Tim wants to gain the same exposure as Jenny. If it is assumed the S&P/ASX 200 index value is currently roughly 6,700, for Tim to have the same exposure to the market as Jenny (\$10,000), he would need to have a trade of roughly \$1.5 per point ($6,700 \times 1.5 = 10,000$). Assuming a leverage of 200:1, Tim would only need to put down a margin deposit of 0.5% of their exposure, or $10,000 \times 0.5\% = \$50$. As an aside, Pepperstone is supportive of negative balance protection and in practice already offers this to the majority of its clients, which means that even if the market moves drastically against Tim, he would not be liable to pay his entire exposure, he would only be liable for the money he holds in his account.

This scenario illustrates how using leverage can free up other capital to give an investor more investment choices.

With these types of investors in mind, we provide the following responses to ASIC's questions in CP 322.

Proposal E1

Pepperstone has never offered binary options to our clients. We are supportive of a ban on binary options.

Proposal F1

F1Q1 Do you agree with our proposal to make a market-wide product intervention order which imposes Conditions 1–8 (set out in Table 5) on the issue and distribution of CFDs

to retail clients? If not, why not? If you disagree that CFDs have resulted in, and are likely in future to result in, significant detriment to retail clients, please provide evidence and data in support of your view.

We are not supportive of a market-wide product intervention for the reasons outlined in the Association Submission, although we are happy to work with ASIC to try to implement the improvements outlined in CP 322 in a moderated way.

Condition 1: Leverage ratio limits

We believe the limits contemplated by ASIC are too stringent and may simply encourage investors to trade with entities operating outside of the Australian regulatory environment. Our clients have told us that they prefer to trade in Australia with reputable, licensed providers, but feel they are being forced offshore to access the product they want to trade.

We also believe there is a large population of investors that are not being considered in the various regulatory restrictions that are being implemented globally and that are now being considered in Australia. These experienced investors are fully aware of the various risks in trading CFDs and FX products. They are willing to accept those risks because it enables them to access greater exposure for less outlay upfront, as well as the significant short-term gains that can be made.

We are concerned that many investors will have no option but to trade outside of Australia and the recommended restrictions, because the various EA and trading strategies they use (such as scalping strategies) only work with the buying power and flexibility that high leverage levels offer them.

Over the last 90 days over a third of trades placed with Pepperstone have been EA trades. During certain times of the day, this percentage reached up to 45%.

Should the recommendations be implemented, each one of these investors' EAs will need to be reprogrammed. Some will simply cease to operate or will not be able to be used as their strategies are contingent on flexible leverage. Other EAs will require changes to their underlying code which will be a time and cost burden on the investor.

We would like ASIC to consider allowing experienced and knowledgeable investors, who understand the risks of trading CFDs and FX products, to continue to have the flexibility of higher leverage.

We support the following suggested leverage levels (as set out in the Association Submission) for **experienced investors** only:

- Major currency pairs* - 100:1
- Non-major currency pairs, gold and equity indices - 50:1
- Commodities other than gold - 30:1
- Individual equities and other reference values - 20:1
- Cryptocurrency assets - 5:1

*Major currency pairs are any products whose base and quoted currency are made of the following currencies: AUD, USD, EUR, JPY, GBP, CAD or CHF.

Where **experienced investors** are classified as investors who:

- earn an annual income of at least \$85,000 or who have over \$200,000 in liquid assets; and
- are investors that have:
 - traded CFDs and margin FX for at least 12 months, placing a minimum of 50 trades in the previous two years; and
 - signed an acknowledgement form stating they have previous experience in acquiring or disposing of financial products that allows them to assess:
 - the merits of trading CFDs and margin FX; and
 - the value of CFDs and margin FX; and
 - the risks associated with holding CFDs and Margin FX; and
 - the client's own information needs; and
 - the adequacy of the information given by the licensee and the product issuer.¹

In the case where an investor is unable to provide independent evidence that they have the trading experience or is unable to meet the income and asset test, the acknowledgement form would need to be additionally certified by an independent licensed financial advisor, lawyer or certified accountant.²

This classification aligns with the “Sophisticated Investor” definition in the *Corporations Act 2001*,³ and is similar to the requirement allowing for the provision of an investor certificate under the New Zealand *Financial Markets Conduct Act 2013*.

It is also consistent with the learnings coming out of Europe following the introduction of the European Securities and Markets Authority (“**ESMA**”) product restrictions. In particular, we note decisions taken by both the Polish and Cypriot regulators to consider modified regulations for a new (more sophisticated) class of investor.

We believe that this will benefit investors who understand and want to accept the risks of trading by allowing them to continue to have access to higher (although still capped) leverage, without needing to forgo retail investor protections.

All other investors should be classified as **inexperienced** and we recommend the following leverage levels which align with the current restrictions imposed by ESMA:

- Major currency pairs* - 30:1
- Non-major currency pairs, gold and equity indices - 20:1
- Commodities other than gold - 10:1
- Individual equities and other reference values - 5:1
- Cryptocurrency assets - 2:1

¹ These align with requirements already available to investors under s761GA *Corporations Act*.

² This form is similar to the Investor Certificate requirement under the *Financial Markets Conduct Act 2013* (NZ).

³ s761GA *Corporations Act*.

We believe that the implementation of restrictions which are similar to ESMA will better align with current industry expectations, because the ESMA measures are the most recent international changes that have been made and will impact investors and the financial services industry less than the more stringent requirements proposed under CP 322. We also note that while very few Australian licensees have financial services licenses in Asia, a larger number have licenses in Europe or the UK, so it will be quicker and easier for industry to adapt to the changes in a practical sense if they are consistent with the ESMA requirements.

Condition 2: Margin close out protection

While we do not have any concerns about the proposed 50% margin close out rule in principle, we believe that practical adherence to the requirement will be troublesome for investors who will also need to manage a significant increase in capital requirements as a consequence of the changes to leverage. We believe the combination of these two proposals could lead to far more mandatory close outs, exposing investors to a higher chance of being shut out of positions before they are prepared.

We note the addition of negative balance protection does prevent an investor from losing more money than they have invested.

We agree with the Association Submission's suggested compulsory margin call at 50% and to have no specified mandatory close out requirement, allowing issuers and traders flexibility to choose when a mandatory close out should occur.

Condition 3: Negative balance protection

Although our Australian disclosure allows for us to claim negative balances, in practice, we typically credit our clients' negative balances as a goodwill gesture. For this reason, we do not have any concerns regarding this requirement.

The draft Class Order seems to suggest there will be no transition time for this requirement. We request that ASIC reconsiders this because we currently manage account balances manually and will need to devote considerable time and resources to properly implement and automate the requirement, especially given the number of our Australian clients that will be impacted. It is our preference to ensure that our negative balance process is automated to mitigate the risk of human error in complying with the requirement.

Condition 4: Prohibition on inducements

While we agree that investors should not be inappropriately encouraged to trade products that are not suitable for them, we note that many other industries offer similar inducements without restriction.

Pepperstone does not offer investors any gifts or bonus money to trade. We provide trading rebates to our clients. We consider a trading rebate to be a reward for a particularly high value investor (similar to other brokers who will provide commissions or fee discounts to high volume/value clients), as distinct from an inducement to trade.

We request that ASIC consider including an express carve-out for trading rebates (or otherwise exclude them) from the definition of a prohibited inducement.

Condition 5: Risk warnings

We do not object to implementing this requirement in principle and have already implemented something similar for our FCA regulated entity.

We would appreciate ASIC taking steps to ensure that the requirements are practical, particularly when it comes to certain types of advertising where space is very restrictive. This was an issue for the industry in Europe when the original FCA and ESMA restrictions came into force.

Of particular concern for Pepperstone is that we have no ability to control the available content on our main trading platform screens because we use third party platforms (MT4, MT5 and cTrader). We can place the information on the trading platforms in an 'About' tab or similar. We would appreciate ASIC's confirmation that our proposed alternative satisfies the requirement if ASIC decides to proceed with it.

As a general point, we note that the requirements for this and other real-time disclosure on trading platforms only apply to platforms that are maintained by issuers. Pepperstone would appreciate some clarification as to whether it would be necessary for us to implement the requirements, given that the trading platforms are issued and maintained by third parties and we only licence them.

Condition 6: Real-time disclosure of total position size

We believe that real-time disclosure functionality is already available within 2 of our 3 trading platforms (MT4 and MT5). cTrader does not have this functionality and only allows an investor to show their total buy and total sell volume per symbol – we would require implementation time to show a notional amount. Margin accounts with our bridge provider also only show a net notional amount per symbol and changes are not easily implemented using our current trading platforms, which we do not control.

We are happy to work with ASIC to see whether there are other options given our particular circumstances.

Condition 7: Real-time disclosure of overnight funding costs

This is the most problematic real-time disclosure requirement for Pepperstone. It is possible for us to charge either as an amount in 'pips' or 'points', or a percentage annualised within our trading platforms - but it is not possible for us to do both at the same time. Charging as a dollar amount is not available for any of our platforms.

This requirement will also necessitate a change to our product offerings, such as swaps which do not operate on an annualised figure. To reiterate the same point made in the Association Submission, a swap charge for a particular position is heavily influenced by the underlying interest rate corresponding to each of the two currencies involved. The swap charge is applied when an investor holds the position at the daily rollover point, which is 00:00 server time and known in FX trading as 'tomorrow next' or 'tom next.' Swap charges are driven by interest rate differentials. Interest rate differentials are another way of thinking about the difference in interest rates between the base and quote currencies. Naturally, there can be differences in the two interest rates, so some issuers will net these off and assess the differential, investors are then charged — or could

even receive — a daily amount of interest. Factors that affect this amount include lot size, the current market price, and the extent of the differential between the two interest rates at that time.⁴

Condition 8: Transparent pricing and execution

We are happy to implement this requirement although we note that Pepperstone supports multiple languages so we will need time to facilitate the translations of the documents.

F1Q2 Condition 2 would require the terms of a CFD to provide that a CFD issuer must close out one or more of a retail client's open CFD positions, if the retail client's funds in their CFD trading account fall to less than 50% of their total initial margin required for all of their open CFD positions on that account. Do you agree with this condition or would it be better for clients (and operationally easier) if the CFD issuer is required to close all of the retail client's open CFD positions?

We do not believe that all open positions should be closed. This could have significant negative consequences for investors using EA systems or other trading strategies.

As mentioned above, we are also generally concerned that the combination of this with the lower leverage requirement could also severely impact investors, given the need for additional capital as a consequence of those leverage caps.

F1Q3 Condition 5 would require a CFD issuer to provide a prominent risk warning on account opening forms, trading platforms maintained by the CFD issuer, websites and the front page of PDSs. Do you agree with this condition? Do you think a risk warning should also be required on all advertising and marketing material?

We note that some banner ads do not provide the space to effectively communicate the messaging that ASIC is proposing. We request that ASIC considers an exemption for these types of advertisements, subject to them pointing to a landing page which contains the messaging in a clear and prominent place.

We reiterate Pepperstone's specific issue regarding implementing the disclosure requirements on trading platforms that we do not control.

F1Q4 Do you agree with our proposal that the order would remain in force for a period of 18 months? If not, why not?

We agree with the Association Submission on this matter and consider that, should ASIC insist on using the product intervention power for this purpose, a shorter time period of three months followed by a review of the impact of the changes is appropriate.

F1Q5 Do you agree that our proposed delayed commencement of the order is appropriate, balancing the time it will take to implement the order and the nature, likelihood and extent of the significant consumer detriment? If not, what is an appropriate period?

⁴ For more information, see: <https://pepperstone.com/au/education/what-are-swaps-how-to-calculate-swaps>

We are concerned that the timelines contemplated by ASIC's proposals are unreasonable for both industry and investors, given the number of reforms it proposes to implement at once and the materiality of the changes.

The reforms put forward by ASIC will require changes to multiple systems, processes and public documents, comprehensive training of staff and hours of testing and monitoring. They will also require investors to recapitalise their accounts and make significant changes to risk management and other third-party software systems, trading analysis/strategies.

The proposed reforms will completely alter the way that investors trade CFDs and FX products and we believe that additional investor education is critical for the smooth implementation of the changes. In particular, we will be recommending that any of our clients who are willing to trade under the stricter regulations thoroughly run new strategies via demo accounts under various market conditions prior to putting them into practice, which clients will need time to implement.

As mentioned in the Association Submission, the industry is currently dealing with multiple regulatory reforms, such as internal dispute resolution changes and the design and distribution obligations. We ask that ASIC consider the impact of the reforms of CP 322 on the industry in conjunction with these other reforms. We are concerned that expediting such major changes is likely to lead to mistakes in implementation or misinterpretation of requirements, which may cause more unintended consequences and harm to investors.

We believe a minimum of 12-14 months is required. Please refer to the details in Appendix A for more information.

F1Q6 Do you agree with our identification of the effects that making the proposed product intervention order will have on competition in the financial system? If not, why not?

We agree with the Association Submission on this question.

Many of the proposed requirements will be difficult for Pepperstone to implement in the timeframes required and will be more costly for us given our reliance on third party platforms - resulting in a significant competitive disadvantage for Pepperstone even against other Australian licensees in the same industry. The requirements go beyond any other global regulatory obligations which means other overseas licensed providers will not have those obligations or the resulting costs.

We also have concerns that the proposals will provide an advantage to unlicensed and unregulated providers.

Costs

We note that ASIC has asked for costs associated with the implementation of these proposals.

We have estimated that Pepperstone's ASIC-licensed business will suffer a \$194 million revenue loss as a consequence of ASIC's proposals being enacted as proposed. This is based on the assumption that while there will still be growth, having lower leverage caps than any other overseas jurisdiction will result in all of the entity's clients from outside of Australia closing their accounts. The figure also takes into account an additional 30% loss of revenue from Australian

clients moving to offshore issuers, based on our experience with client losses from our UK entity after the FCA reforms.

For completeness, we note that Pepperstone's revenue does not come from investor losses. We recently conducted a review of our global business over the last 3 years to look for incidental revenue that is attributable to investor loss and note that it only comprises approximately 3.7% of our overall revenue and this revenue tends to zero over the long term. The only reason any revenue is attributable to client losses is that Pepperstone aims to match buyers and sellers to reduce our hedging costs, allowing us to internalise flow. This enables us to offer products to investors at reduced costs passed on directly to clients via lower fees.

In addition to our estimated revenue loss, we estimate an upfront cost of implementing the changes to be at least \$2.7 million dollars, with an additional on-going cost of \$495,000 per year for at least for the first few years. A breakdown of those costs can be seen in Appendix B.

We are unable to include in our estimated costs any payments to third parties (like MetaQuotes, Spotware and OneZero) in order to implement changes to their systems as a result of some of the requirements in CP 322. Our Operations team have been involved in discussions with those providers since CP 322 was released but at this stage those providers are unwilling to give us cost estimates until the requirements are confirmed. Our cost estimate will materially increase should those third-party system changes be mandatory.

Conclusion

Pepperstone is committed to improving industry standards and we remain open to providing ASIC with any other information that it requires to assist in this process going forward.

The two primary aspects we ask ASIC to consider when making its decision in relation to CP 322 are:

- allowing experienced, knowledgeable investors more trading flexibility without having to give up their retail status or Australian licensed protections; and
- providing more reasonable time frames for implementation of the various proposals to allow for a smoother, more considered transition.

Yours Sincerely,



Tamas Szabo
Group CEO
Pepperstone

Appendix A: Implementation timeframes

This Appendix sets out what would be required for us to implement each change as proposed by CP 322. We note many of the changes will need to be undertaken by the same individuals so they cannot be done in parallel. We also note that other priorities will impact the time frames given we are in the process of preparing for multiple licenses and dealing with other regulatory reforms.

ASIC proposal	Required work	Time frame
1. Leverage ratio limits	<p>Pepperstone will need to:*</p> <ul style="list-style-type: none"> change the calculation type on its symbols to not use the account leverage, and instead use fixed margin rates per symbol to account for the varied margin rates; conduct an audit of all website references and client portal references; make changes to disclosure and trading systems (which includes hard coding changes to client system and removal of client options to alter leverage); grandfather existing positions at their old margin rates, but assign the new margin rates to new positions. This requires building an automated process to update thousands of positions to their existing margin rate when the change to use fixed margin rates per symbol comes in to effect and must be tested thoroughly to ensure no unforeseen circumstances; create of new retail leverage group codes - several thousand will be required to be created across multiple trading platforms; potentially implement new trading servers to deal with additional load; and review any potential impact on lifecycle trade reporting requirements. <p>In addition, investors will need:</p> <ul style="list-style-type: none"> to be given the opportunity to re-code or research and buy new EA systems; and to be re-educated on new trading strategies and will need to test those strategies on demo accounts under various market conditions prior to using live trading. 	<p><u>Pepperstone timeframe</u> 2 weeks scoping and audit</p> <p>Minimum 4-month development work. Disclosure updates can occur during the same time and includes signoff from legal and compliance.</p> <p>Pepperstone supports multiple languages - Minimum 1-month for translations</p> <p>Minimum 1-month testing.</p> <p>2 weeks monitoring in parallel prior to going live and overall final checks on systems and processes.</p> <p>Overall: 6 months minimum if staff could solely concentrate on these updates</p> <p><u>Client timeframe</u> Overall: 12 months considering that multiple investors will be making requests of EA developers at the same time. 3 months research, 3-6 months development and 3 months of testing.</p>
2. Margin close-out protection	Implementation of this requirement is fairly straightforward but it will have a significant practical impact on investors. We believe we will need to provide comprehensive investor education and	<u>Development</u>

	will consider making significant improvements to our margin call system (including the implementation of a margin call sms system) to ensure as much warning is provided to investors as possible.	The development work for the SMS alert system has already been previously scoped by Pepperstone and will require a minimum 6-month development. <u>Education</u> We would require a minimum of 2 weeks to produce education material. Additional 1 month for translations. In addition we would require a minimum 3-month marketing campaign after the translations are finalised.
3. Negative balance protection	Pepperstone currently deals with negative balances on a manual basis. Implementation without any additional development would require an alert function and daily changes made by finance to accounts (which would lead to a higher chance of error).	Manual implementation would require the development of an alert system (1 week) and staff work daily. Automated system would require a minimum of 3 months development.
4. Prohibition on inducements	The largest aspect of this requirement would be notification and education to clients who will not easily accept the removal of a benefit they have been receiving. Also requires an audit and update to all disclosures and removal of rebates on client accounts.	We would require a minimum of 2 weeks to produce education material. Additional 1 month for translations. 1 month to change all of the information on various websites and in various systems. A minimum of 3-month education campaign after translations are finalised.
5. Risk warnings	An audit of all disclosure will need to be conducted and signed off by legal and compliance. Changes will need to be made including redesign of various image and animated marketing campaigns. Updating all marketing third party sites, such as Google. If the information can be displayed on the trading platforms in an 'About' tab or similar it can be implemented in the same timeframes. It will be impossible to comply with a requirement to display a warning in a place that is always visible to the client, as we do not have control over the platform.	Audit and drafting would be a minimum 1 month. Translations an additional 1 month. Graphic design a minimum three months. If display is required on front part of trading platform itself, this is impossible and would require development of a proprietary system – 2 years minimum
6. Real-time disclosure of total position size	Should be possible already with MT4 and MT5 which offer an 'exposure' tab. cTrader does not have this functionality and only allows a trader to show their total buy and total sell volume per symbol – this would require implementation time to show as a	For cTrader, 6 months minimum and dependent on external technology provides with no guarantee they can implement the changes.

	notional amount. Margin accounts with our bridge provider show a net notional amount per symbol.	If display is required on front part of trading platform itself, this is impossible and would require development of a proprietary system – 2 years minimum
7. Real-time disclosure of overnight funding costs	It is possible to charge either as an amount in ‘pips’ or ‘points’, or a percentage annualised on our trading platforms - but it is not possible to do both at the same time. Charging as a dollar amount is not available on any of our platforms. Also requires a fundamental change to our product offerings such as swaps which do not operate on an annualised figure. This would require significant development work from MetaQuotes, Spotware, OneZero and any other platform providers with no guarantee of implementation. Likelihood is that some providers will not implement, resulting in further work in moving clients to a platform that can support this requirement, with a high risk of negative impact to clients and several additional weeks or months of complaint handling.	Minimum 12 months development work and may not even be possible with our current systems and reliance on third party platform providers.
8. Transparent pricing and execution	Requires an audit of all content and changes to disclosure which will require input of legal and compliance as well as creation of new policy documents.	A minimum of 2 months will be required for this work An additional 2 months will be required for translations across multiple languages
OVERALL	On the basis that: <ul style="list-style-type: none"> • all of this work is required to be completed at the same time; • the same resources are required for each change; • the impacts on investors will be material and they will likely be consuming greater staff resources as they either adjust to the different environment or ask to close out all of their positions and accounts; • the teams already have general BAU work supporting a \$3 trillion turnover business and cannot focus solely on these updates; and • the updates are only part of the changes that need to be made given other regulatory changes including IDR, monitoring of lifecycle reporting, distribution obligations, updates to help facilitate additional licenses that Pepperstone is currently in the process of implementing. 	12-14 months

Appendix B: Implementation costs

The following costs are based on the timeframe implementation information in Appendix A. These estimates **do not** include the cost of payments to third party providers (MetaQuotes, Spotware and OneZero) to implement changes to their systems.

ASIC proposal	Upfront cost - FTE	Upfront cost – Value	Ongoing cost - FTE	Ongoing Cost - Value
1. Leverage ratio limits	1 FTE Ops 2 FTE IT Dev 1 FTE QA Analyst 1 FTE Compliance/Legal 1 FTE Marketing	\$300,000.00	2 FTE Support 0.5 FTE compliance	\$150,000.00
2. Margin close-out protection	2 FTE IT dev 1 FTE Ops 1.5 FTE Marketing 1 FTE Compliance/legal	\$275,000.00	0.25 FTE Marketing	\$25,000.00
3. Negative balance protection	2 FTE IT 2 FTE Ops 1 FTE Compliance 1 FTE Support	\$150,000.00	Ongoing (monitoring) cost 0.25 FTE Ops 0.25 FTE IT	\$37,500.00
4. Prohibition on inducements	2 FTE Marketing 1 FTE Compliance 2 FTE Ops 1 FTE Support	\$150,000.00	0.5 FTE Support	\$37,500.00
5. Risk warnings	2 FTE Marketing 1 FTE Compliance 3 FTE IT	\$150,000.00	0.25 FTE IT 0.25 FTE Marketing	\$37,500.00
6. Real-time disclosure of total position size	4 FTE Ops 4 FTE IT 1 FTE Compliance 1 FTE Risk	\$500,000.00	0.4 FTE Ops 0.2 FTE IT	\$57,500.00
7. Real-time disclosure of overnight funding costs	4 FTE IT 2 FTE Ops 1 FTE Compliance 1 FTE Market Risk 1 FTE Sales	\$900,000.00	0.5 FTE IT 0.25 FTE Ops	\$75,000.00
8. Transparent pricing and execution	2 FTE Marketing 2 FTE Compliance 1 FTE IT 2 FTE Ops 1 FTE Risk 1 FTE Support	\$275,000.00	0.5 FTE Ops 0.25 FTE IT	\$75,000.00
Implementation cost		\$2,700,000		\$495,000
OVERALL	Revenue loss = \$194,000,000	Implementation cost = 27,495,000		\$221,495,000