ARBITRAGE TRADING EXPLAINED

PFX is the only reputable company in the $multi-trillion global project finance market offering arbitrage trading as a route towards your project financing, being equally as valid as engaging with one of our registered investors. Arbitrage underpins what are also known as private placement programs (PPP), whereby *private* capital is *placed* into a *program* (as opposed to being *invested*).

Since PFX introduced its trade desk in mid-2023 our executives have spent hundreds of hours answering the same questions from countless clients. This document has been produced to clarify some of the main points about arbitrage trading with a FAQ section which, we hope answers all your questions (and save our executives further 100's of hours!)

After reading this, your next step is to return to the PFX Trade Desk zone, download the Preliminary Enquiry Form and return it to the e-mail address shown on the form.

History

Arbitrage trading was originally developed to fund major reconstruction projects after World War II. Economist John Maynard Keynes introduced his 'money creation' scheme at the iconic Bretton Woods conference in 1944 which also gave us the World Bank, IMF and what was, at the time, the G5.

Originally introduced as private placement programs (PPP), over eight decades they have been used to fund thousands of major construction, industrial and infrastructure projects worldwide. But, with minimum cash placements of $100m or more it was always out of reach of many companies who wanted to access it for their own projects. None have ever failed.

Now, after eight decades of evolution, PFX clients can enter the market with much reduced placements to contribute to or completely finance their projects.

Process

Originally, the process was exclusive to global construction, infrastructure and similar companies, governments and the largest financial institutions. Trades were conducted between merchant and investment banks and some financial institutions with their own trading rooms, using phone and telex. Trades were at a far lower volume than that prevailing today. Back then margins were 3%, 4% or 5% on placements of $100m or more (bearing in mind this was the early 1950's onwards).

Today, and most recently since the early 2000's, the advance of technology and algorithms have opened the market up to a much higher volume and speed of trades, but operating on much smaller margins. Assets across currencies, equities, commodities and other markets are bought and sold at a much higher volume. *There is always a buyer confirmed for the asset before it is acquired* which is, ultimately, the definition of arbitrage trading.

Risk is limited to system failure, natural disaster or *force majeure* incidents.

Trade Desk FAQ's

Q: **How do you define 'arbitrage' trading?**

A: There are many definitions. At PFX we define it as: 'Buy and sell transactions whereby the sale is contracted prior to the asset being bought. Thus eliminating all perceivable risks.'

Q: **What sort of returns can I expect from my trades.**

A: This is governed by the activity in the market in which assets are being traded. The more volatile the market the more opportunity for trades, and the bigger the potential differences between the simultaneous 'buy/sell' transactions.

It also depends very much on what you place into your program. With a placement of $10m expect a return in the order of 40% upwards per month. $100m or more will normally deliver 80% to 120% per month. Guidance on returns are benchmarked using historical results.

Q: **Are funds generated from my trades treated as a loan?**

A: No. They are treated as profit and must be processed accordingly in your accounting depending on your jurisdiction.

Q: **Will my investor charge me interest if lending me profits from their trading operations for my project?**

A: No. Profits from trading must not be provided as loans as the interest from them would have a distorting effect on the global economy. These funds can only be provided in exchange for equity.

Q: **If there's so much money in trading, why don't the traders use their own money?**

A: Traders or the institutions that have their own trading operations are not allowed to use their own funds for trading. This would have a severely distorting effect on the global economy in the same way that charging interest on loans using profits from trading would. These matters are constantly monitored and regulated by the World Bank and IMF. Besides being used to rebuilt infrastructure and industry across the world after WWII, arbitrage increased economic activity generally across the world, which would only be distorted if traders or institutions used their own funds for trading.

Q: **How do I know if someone's trying to rip me off?**

A: If they try to charge any kind of up-front fee. There are no fees to enter a genuine trading program.

Q: **Can I enter a trade with less than $10m?**

A: There are programs for sub-$10m placements but it is a very fluid market, albeit operated by some leading and respected institutions. It is necessary to enter these trades with cash. SBLC's, BG's etc cannot be monetized at this level. PFX is close to these opportunities but, we emphasise, cash must be available to enter into these sub-$10m trades.

Q: **Is there a limit to how much cash I can place into a program?**

A: No. You can place from $10m to anything up to $5bn, $10bn or more. There is a significant number of foundations and similar entities that do this in order to sustain their humanitarian work.

Q: **What if I'm in a country with a low credit agency rating, or one that is considered 'high risk'?**

A: You can enter trades from any country not sanctioned by the UN. But the overriding condition is that your funds must be deposited, or if trading with an instrument it must come from a bank with an 'A' or better rating in an acceptable, stable jurisdiction.

Q: **Can I talk to the traders before moving forward?**

A: No. If the traders had to field questions from all the people who wanted comfort/assurance before moving forward, they would never have time to do any trading. It is the role of PFX to answer these questions. However, once you have completed all compliance and due diligence checks by PFX and our team, and after formal initial acceptance into the trade program, you will be able to have a conversation directly with the traders.

Q: **Who will my trading agreement be with, PFX or the trade group?**

A: You will have a direct JV trading agreement with the traders where they take a share of the profits leaving the majority to you.

Q: **What fee do I pay to PFX?**

A: Nothing. We are paid direct by the trade group with a commission based on profits generated. However, if you come to PFX through an intermediary, you will need to come to your own fee agreement with them. This should not exceed 2% of monthly profits paid direct to the intermediary. This also applies to PFX Regional Managers.

Q: **What is the risk to my money?**

A: Over the past few decades many steps have been taken to ensure that clients' placement funds are properly protected. The most common is having funds 'blocked' in the client's own account for the duration of the trades. This is arranged as an inter-bank transaction between the trader's and the client's bank using a SWIFT MT799. Your funds never leave your account.

Q: **What is SWIFT?**

A: SWIFT (Society for Worldwide Interbank Financial Telecommunications) was set up in the mid-1970's from its HQ in La Hulpe, Belgium as a financial transaction messaging service, now serving 11,000 financial institutions worldwide.

Q: **What is a MT?**

A: MT denotes the SWIFT Message Type with MT799 being an arrangement between the trader's and client's banks to 'block' the funds for the duration of the trades, in order that they cannot be used for any other purpose.

Q: **Can I use an MT799 if my placement is less than $10m?**

A: Normally at this level escrow, trust or similar arrangements are made, although one leading bank has recently introduced a new MT799 program for sub-$10m trades, although this is only available intermittently.

Q: **You say this is an unregulated market but what's with all the form filling?**

A: The market is regulated very tightly for anti-money laundering which is why the trader's KYC form is so detailed. You will need to provide your passport, proof of address, proof of funds, proof of life and many other proofs before the trader's will even talk to you.

Q: **Can you provide references?**

A: No. This is a private and unregulated market which takes privacy and confidentiality very seriously. Would you want the traders to disclose your private business to others? If you don't feel you can move forward without references it's best to move on now.

Q: **Do I get to talk to the person who will be trading with my money at all?**

A: Yes, once you have completed the KYC and you have been invited into a program. They will not engage with you until that is done.

Q: **Who are the trading companies? Will I know them?**

A: Once you have been through the KYC process and are introduced to the trader you will immediately recognise the name of the institution. Those that operate in this market are all leading, global names with A+ credit agency (Moody's, S&P etc) ratings.

Q: **Do I have to have a project to fund before I can enter a program?**

A: Yes. The World Bank and IMF who, between them, oversee the market need to be sure that profits generated through trades are actually going to be allocated into genuine projects rather than used to enhance lifestyles. This is why many traders are now working with PFX because they can see genuine projects listed on our site.

Q: **I have valuable hard assets (land, RE etc). Can I use these to enter into a trade?**

A: Yes, but the value of those assets would need to be over $150m. This is because your assets would be used for an asset-backed SBLC, which you would need to be issued from an 'A' or better rated bank. After discount for monetization you would be left with $100m to enter into a cash trade. There would be a cost to you in setting up the instrument with your bank which can run anywhere between 1% and 10% of the instrument value.

An alternative is for you to obtain a bridge loan on your assets and enter that into trade. Your first stop should be your own financial institution for this purpose. PFX has a Bridge Loan service for some hard assets as well, but this should be considered a fall-back option. There are costs to obtaining a loan on assets, however the strategy is to use the trading itself to repay the loan.

Q: **I own land which I can prove through either JORC or IR NI 43-101 or similar less than 12 months old has mineral or other in-ground resources. Can I use these to raise funds to get mining operations under way?**

A: Yes, PFX is direct to an in-ground asset monetization program that can convert in-ground assets to cash, which is then entered into trade which will generate sufficient profit for you to start mining operations. Minimum deal value needs to be $150m, although under certain circumstances the program operators will go to a minimum $100m.

The historical origins of the arbitrage trading process are presented in the Prologue to the thriller novel '*The Bretton Woods Legacy'* available on *Amazon*. It is free to view the Foreword in the 'Read Sample' panel.

Do you have any further questions? Please send them to trade.desk@projectfinanceeexchange.com.

We'll reply to you directly and add your Q&A to our FAQ's.

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