ARBITRAGE TRADING

Introduction and FAQ's

PFX is the only reputable company in the $multi-trillion global project finance market offering arbitrage trading as a proven 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* with the risk that implies).

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 relevant to your transaction and return it to the e-mail address given on the form.

History

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

This is a trading floor of the Tier-1 global institution where PFX works directly with a trade group. 'Non-solicitation' rules restricts traders' direct exposure to the market. Instead they work through trusted intermediaries, like PFX, for introductions to new clients.

The sheer volume of trades across stocks, commodities, bonds, metals and other markets drives the exceptional returns for those who place (not invest) their funds into trading programs. Two decades ago it was necessary to place $100m or more to enter the market. Today, with the advance of technology and algorithms, the minimum placement is $1m. But there are rules and conventions that must be followed.

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. None have ever failed. But, with minimum cash placements of $100m or more it was always out of reach of most of those who wanted to access it for their own projects.

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 other institutions with their own trading rooms, using phone and telex. Trades were at a far lower volume than those prevailing today.

Today, and most recently since the early 2000's, the advance of technology, near instantaneous information flow, and algorithms have opened the market up to a much higher volume and speed of trades. 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.

Outside of *force majeure*, trading risk is 99.9% eliminated. Profits far exceed any mainstream market.

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 acquired. Thus eliminating all perceivable risks.'

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

A: Over the past few decades many steps have been developed to ensure that clients' placement funds are properly protected. Much depends on how much you are placing into your trade. PFX faces two of the world's reputed seven genuine trade desks hosted by Tier-1 institutions but, broadly speaking, your cash protection will be through one of the following structures:

Placement	**Cash protection structure (values vary depending on trade group).**
Sub-$10m:	**Non-depletion JV account:** This is an account set up directly with the trade group. So, if you are entering a trade with an amount between $1m and $10m you will transfer your funds into a non-depletion jv account. A senior executive from your trade group will also be a signatory on the account. This is to ensure that the account balance does not fall below the initial funds placement while trading is in progress.
c$10m - $50m:	**Monetized bank instrument:** You have the option of opening a non-depletion JV account with your trader, as above, or issuing an SBLC or other instrument issued from your bank to the trader's bank. This will normally run for one year after which the instrument expires and the cash you used to back the instrument is free and clear for you to use again. While the SBLC keeps your funds under your control, there is always a 'monetisation discount' which will reduce the value of your placement. Provided your instrument is issued by a top-100 bank in an acceptable, stable jurisdiction~~,~~ you can expect a monetisation discount. Your trade group will provide further details. After a year's trading, you will not need an instrument to start your next round of trading. You will have cash available.
c$50m+:	**Admin Hold/Blocked Funds:** This is a process whereby the trader's bank blocks funds in your account to the value of the funds you wish to place into your account. The mechanism for this is provided through a SWIFT MT799, an inter-bank process, which 'blocks' the funds in your account, against which the trader's host bank can provide a loan to them to start your trades. The block is lifted after (usually) a year, releasing the funds as free and clear again for your own use. The trader will usually offer to create a profit account for you so that you can then recycle your funds back into trade at your discretion. Note that these funds will need to be at a top 25 western bank.

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 a direct 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: What sort of returns can I expect from my trades.

A: Any source which promises a certain monthly or annual return is already violating the rules and doesn't understand arbitrage trading. Revenue from trading 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.

This can be discussed in more detail with your trader.

Q: Why do you insist on seeing my Proof of Funds (POF) before engaging with me?

A: This is simply a regulatory requirement. The first step is to keep out fraud, banned and sanctioned individuals and entities and to ensure the funds to be used are not of criminal origin.

Q: Why can't I find my own trade group?

Traders are governed by 'non-solicitation' rules, meaning trying to attract their own clients. The regulations dictate that those who wish to enter a trading program must make their first approach through a trusted intermediary, like PFX. The first step, again required by regulators, is for the client to submit CIS and POF in order to even qualify for the process.

That is why we require the preliminary enquiry forms (PEF) for your anticipated trades (cash, instrument, asset monetization etc) properly and fully completed before having a conversation with you, followed by a fully completed CIS if the initial information is suitable.

This is set in stone. There are no exceptions.

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

A: Yes, new regulations introduced in Q3 2024 require trade groups to show evidence to regulators that their trades are in support of genuine projects. Once you have been accepted by the trade group we will provide you with a submission form which the trade group will be able to use to prove that yours is a genuine project.

Q: We are investors and have more than one project to fund. Can I use this system to build my capital stack?

A: Yes. We will arrange for you to talk directly to the trade group on this. But we still require the $10m+ PEF to be completed in full.

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

A: No. They are treated as profit and must be treated 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 host them 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 overseen by the World Bank and IMF. Besides being used to rebuilt infrastructure and industry across the world after WWII, arbitrage increased economic activity generally, 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: First of all, all trade cases go through trusted introducers. The traders do not interact directly with prospective clients at all. The facilitating firms are known by the trade groups and their traders themselves. That's right, PFX and its principals after many years of establishing their reputations in the market has had to pass KYC and AML screening. That said, the following are 'red flags' from facilitating firms

1. If they guarantee acceptance into a trading program.
2. If they provide a certain monthly or annual 'return'.
3. If they try to charge any kind of fee to go into trade. There are no fees to enter a genuine trading program.

Note that if you are using an asset like finished gemstones, gold in safekeeping, or valuable inground assets, there will be charges to set up an insurance wrap and other costs before you will qualify to enter into the program. These costs, and associated process will be disclosed to you by PFX's highly awarded insurance Wrap provider before you engage them for this purpose.

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

A: No. You can place from \$1m 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 with provable clean funds. The overriding condition is that your placement funds are in a bank acceptable to the traders in a stable jurisdiction.

Q: Can I talk to the traders before I commit to trading?

A: Yes, after you and your case is fully qualified with POF, CIS and other requirements.

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

A: You will have a direct trading agreement with the trade group.

Q: What fee do I pay to PFX?

A: Nothing. We are paid direct by the trade group.

Q: What's with all the form filling and drawn out process?

A: This is a highly regulated process to absolutely ensure three key factors:

- The asset/cash owner
- The security of the asset and
- The value of the asset.

Everything that is done is to satisfy those questions. You must be prepared to satisfy these three requirements before you begin your discussion with our trader.

As a point of reference, firms that 'cut corners' and don't fully and completely satisfy these three points risk being sanctioned or barred from the market.

Q: **Can you provide references?**

A: No. This is a private market which takes privacy and confidentiality very seriously. PFX follows established market conventions.

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

A: Yes, once you have completed their KYC, provided your proof of funds and you have been invited into a program. They will not engage in conversation with you until that is done. If you have a non-cash trade that is accepted, you will also have a video conference. Please note that all video conferences are recorded and kept in perpetuity.

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 their hosting institution. The banks involved are not allowed to trade themselves, they simply host and facilitate the trading for the different traders/trade groups.

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 obtain from an ‘A’ or better rated bank. After discount for monetization you would be left with $100m to enter into a cash trade.

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 valuable physical assets, but this should be considered a fall-back option. There are costs to obtaining a loan on assets and the bridge loan provider will likely want proof you can service the interest on the loan independent of the trading profit. However the strategy is to use the trading itself to repay the loan.

Q: **I own land and mineral rights which I can prove through either JORC or IR NI 43-101 or similar less than 12 months old. 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 trading return is $150m. You must also provide an attestation letter from a well know law firm, with the attorney’s BAR or other registration number.

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.

Now, return to the PFX Trade Desk to download your Preliminary Enquiry Form