

Trading the Right Curve™ for Cross-Border Securities

As an investor, have you been reluctant to trade cross-border securities due to the costs and complexities involved? As a portfolio manager, have you found it an operational hassle to deal with the FX cover trades? As a fund manager, have you found it difficult to measure the actual performance of your portfolio managers due to the different currencies between the underlying assets and the fund? As a state pension fund, do you balk at the exorbitant post trade FX spreads charged by intermediaries such as custodians?

Multi-denomination Automated Quotation (M-DAQ™), is a Game Changer that aims to create a World without Currency Borders™ insofar as to enable listed securities to be tracked, traded and settled in the investor's local currency rather than the currency of the Securities Exchange.

Implemented at the Exchange-level, the combined Securities and FX blended price is deemed to be an Exchange sanctioned price that would satisfy a fund manager's fiduciary duty of best execution.

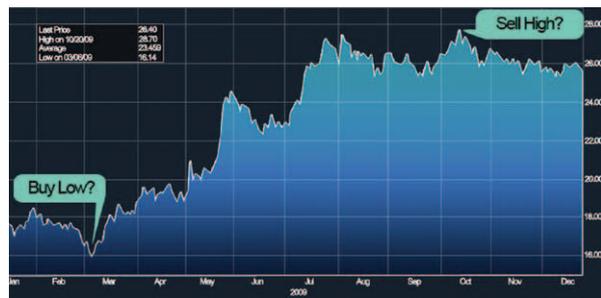
It also has the effect of creating an infinite number of "right curves" where the securities now has a number of foreign currency curves – which is local to the investor, removing the uncertainties and complexities of the two constantly changing and independent variables. For instance, a USD-based investor or fund which buys into the Japan market denominated only in JPY, would still be tracking the one-and-only JPY-based curve, ignoring all the effects of USDJPY movements – be it intraday or an annual curve. The correct curve, i.e. the curve denominated in the investor's home currency will be possible when Exchanges adopt the M-DAQ concept. This ensures all trading is based on the right entry and exit points, taking into account both the securities and FX prices.

Although there will be the ability for the same security to now be listed and traded in multiple denominations, there is only one liquidity pool and

a single order book. For example, the best Bid price in a USD virtual order book will be able to match with the best Offer price in a GBP virtual order book, on a JPY listed security.

Though the industry has talked about marrying Exchange traded securities with OTC FX for some time now, the biggest hurdle is a change in mindset to the current investment process. With this new Exchange's initiative, we believe its natural evolution will have far-reaching industry wide effect.

The top graph (which exists today) depicts MTR stock price in Hong Kong Dollar. The bottom graph (which does not exist today) shows MTR



PRESENT "MTR" Stock in **Original Currency** (HKD)



FUTURE "MTR" Stock in **Choice Currency** (AUD)

stock price in Australian Dollar. The entry and exit points in the stock differ when AUDHKD movement is taken into account.



www.m-daq.com

Data for MTR on HKEX (in HKD v AUD) (9 Jan 09 - 6 Jan 10)

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