

WHAT YOU NEED TO KNOW

# Flexi Bill Solutions for Investors – Investor Step



## Product Disclosure Statement

**Issue date:** 28 May 2010

**Issued by:**

Commonwealth Bank of Australia ABN 48 123 123 124  
AFSL 234945

You should read all sections of this Product Disclosure Statement before making a decision to acquire this financial product.

**Commonwealth**Bank





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## General Information

### Features at a glance

<b>Significant benefits</b>	Security of known rates of return. Your quarterly <i>investment rates</i> may be agreed so that earnings at each quarter match your cashflow needs.
<b>Significant risks</b>	You may receive back less than the <i>initial purchase price</i> if you request the Bank to terminate your <i>investment</i> and the Bank agrees to do so.
<b>Minimum face value</b>	\$100,000.00 (denominations of \$1,000.00 thereafter).
<b>Term available</b>	1 year.
<b>Interest rates</b>	Your <i>investment rate</i> for each quarter may differ and is <i>agreed</i> on the <i>deal date</i> . Current interest rates are available on request from your relationship manager or any branch of the Bank.
<b>Payment of earnings</b>	At each <i>rollover date</i> and on the <i>final maturity date</i> .
<b>Fees and charges</b>	No transaction or account keeping fees are directly applicable to this product. For further information see Appendix A.
<b>Early termination</b>	At the discretion of the Bank. Must be terminated in full. A termination cost may apply.

The information in this Product Disclosure Statement (PDS) is subject to change from time to time and is up to date as at the date stated on the cover. Where the new information is materially adverse information the Bank will either issue a new PDS or a supplementary PDS setting out the updated information. Where the new information is not materially adverse information we will not issue a new PDS or supplementary PDS to you, but you will be able to find the updated information on our web site [commbank.com.au](http://commbank.com.au) or you can call **13 2221**. If you ask us to, we will send you a paper copy of the information.

## Purpose of a Product Disclosure Statement (PDS)

A PDS aims to provide you with enough information to help you decide whether the product will meet your needs. It also helps you to compare the product with others you may be considering.

This PDS provides information about a product called **Flexi Bill Solutions for Investors – Investor Step** (Investor Step). If you decide to invest in an Investor Step, you should keep this PDS and all other documentation relating to your Investor Step for future reference.

This PDS consists of a General Information section and the Terms and Conditions that govern the Investor Step. When you invest in an Investor Step you agree to the Terms and Conditions detailed in this PDS.

If you have any questions or wish to contact us call **13 2221** between 8am and 8pm, Monday to Friday, visit our web site at **commbank.com.au**, or call into any branch of the Commonwealth Bank of Australia (the Bank).

To assist you in understanding this PDS, the definitions of some words are provided in the “Definitions” section on page 15. When used in this PDS, these words usually appear in italics.

## What is an Investor Step?

An Investor Step is a fixed term investment that is composed of a series of underlying *securities*, being Commonwealth Bank accepted *bills of exchange*. As the *bills of exchange* are accepted by the Commonwealth Bank of Australia (currently classified as a prime bank, refer to the section “What is a prime bank?” for more information), the Bank is obliged to pay the *face value* of the *bill* to you on the *final maturity date*. The *tenor* of each *security* is for an approximate period of 3 months. The *term* of the *investment* is for a period of 1 year.

The average of the quarterly *investment rates* is set on the *deal date*. The *investment rate* of each *security* is then fixed for each quarter (i.e. “stepped up” or “stepped down”) to generate earnings to meet desired future cashflows. Income is paid to you at each *rollover date* and the *face value* is paid on the *final maturity date* to your *nominated bank account*.

The *investment rate* “steps up” if the interest rate in the following quarter is set higher than the previous quarter. The *investment rate* “steps down” if the interest rate in the following quarter is set lower than the previous quarter. Once the *investment rates* for each quarterly *security* have been agreed on the *deal date*, they can not be changed during the *term* of the *investment*.

## What is a prime bank?

When you invest in an Investor Step, the Bank will only sell you a *bill* that has been accepted by the Commonwealth Bank of Australia.

The Bank currently meets the definition of a prime bank as determined by the Australian Financial Markets Association (AFMA).

According to AFMA, to be considered a prime bank, a bank must:

- be an Australian Prudential Regulation Authority (APRA) Authorised Deposit-Taking Institution and classified by APRA as: an “Australian-owned Bank”; a “Foreign Subsidiary Bank”; or a “Branch of a Foreign Bank” that is authorised to carry on banking business pursuant to the Banking Act 1959 (as amended) or “comparable legislation in-its country of origin”; and
- be rated by Standard & Poor’s as having a short term rating of A1+ and a long term rating of at least AA-.

It is also expected that its acceptances or negotiable certificates of deposit trade at the lowest benchmark yield, as determined by the market.

The lowest benchmark yield, for a given *term*, is determined with regard to the credit quality and liquidity of the underlying bank.

A listing of prime banks is accessible via the AFMA web site **www.afma.com.au** or upon request from your relationship manager or any branch of the Bank.

## Who is an Investor Step suitable for?

Situations in which an Investor Step may be appropriate are:

- you have \$100,000.00 or more to invest;
- you want to invest for a 1 year term;
- you require certainty over your future earnings; or
- your cashflow needs vary over the term of the investment.

## How are interest rates determined?

On the *deal date*, you agree to an *investment rate* to be used for each quarter. The *investment rate* for each *security* can be stepped up or down in any combination that suits you provided the following conditions are satisfied:

- the average of the quarterly *investment rates* is at a margin below the prevailing 1 year market interest rate; and
- the *investment rate* for any one quarter meets the minimum interest rate requirement as determined by the Bank given the current level of market interest rates on the *deal date*.

The agreed average of the quarterly *investment rates* during the *term* of the *investment* will allow for the Bank's margin. This margin reflects the following factors:

- an allowance for the Bank's business costs, both fixed and variable; and
- the Bank's profit margin.

The margin may vary from time to time due to changed market conditions, the relative liquidity of the *bank bill* market and the timing of the transaction.

Details of current interest rates are available on request from your relationship manager or any branch of the Bank.

## How does an Investor Step work?

### On the deal date

On the *deal date*, you agree to purchase a series of 3 month *securities* for a 1 year *term*.

You agree with the Bank the *face value* of your *investment*, the agreed average quarterly *investment rate* as well as the *investment rates* that will be applied to each of the 4 quarterly *rollovers*.

You can select any combination of *investment rates* stepping up or down to meet your cashflow needs provided the following conditions are satisfied:

- the average of the quarterly *investment rates* is at a margin below the prevailing 1 year market interest rate; and
- the *investment rate* for any one quarter meets the minimum interest rate requirement as determined by the Bank given the level of market interest rates on the *deal date*.

The Bank applies the following formula to calculate the *purchase price* of each *security* in the series.

**Purchase price =**

$$\frac{\text{face value}}{1 + \left( \text{investment rate} \times \frac{\text{tenor}}{365} \right)}$$

The *purchase price* for the first *security* in the series (i.e. the *initial purchase price*) is calculated using the above formula and is payable by you on the *lodgement date*.

Shortly after the *deal date*, the Bank will send you a *confirmation* disclosing the *investment rate* applicable to each quarterly *rollover*, *face value* and *term* of the *investment*. You may also obtain this information on the *deal date* and each *rollover date* from your relationship manager or the branch of the Bank where you invested in the Investor Step.

You should retain the *confirmation* for tax purposes, as the Bank will not send you an end of year summary of earnings.

The Bank will hold your *securities* free of charge on a *safe custody* basis.

### On each rollover date

The *purchase price* formula is applied on each *rollover date* to calculate the *purchase price* of that *security* given the *investment rate* as agreed on the *deal date* and the *tenor* of the *security*.

On each *rollover date*, you will receive an amount (income payment), which is the difference between the *face value* payable to you for the maturing *security* and the *purchase price* payable by you for the new *security*. This amount will be paid into your *nominated bank account*.

### On the final maturity date

On the final *maturity date*, the Bank will pay to you the *face value* of the *investment*.

Prior to the *final maturity date*, you may contact the Bank with your instructions for the maturing Investor Step. You may choose to invest in another Investor Step or request the *face value* (proceeds) to be paid into your *nominated bank account* on the *final maturity date*.

If, on the *final maturity date*, the Bank has not received instructions from you then we will automatically pay the proceeds into your *nominated bank account*.

The following example illustrates the way an Investor Step works.

#### Example 1\*

You wish to purchase an Investor Step with a *face value* of \$500,000.00 for a *term* of 1 year. You would like your quarterly income receipts to offset a pre-existing cashflow such that you will receive the bulk of your income at the end of the *term* of your *investment*.

On the *deal date*, the average of the quarterly *investment rates* during the *term* of the *investment* is set by the Bank at a rate of 5.05% per annum. Based on your preference to receive most of your earnings later in the *investment*, you choose the *investment rate* structure (which is a “stepping up” structure) as-shown in Table 1:

**Table 1: Investment rate structure**

Quarter	Investment rate (% per annum)
1	4.50
2	4.90
3	5.25
4	5.55
<b>Average:</b>	<b>5.05</b>

In Table 1, the average of the four quarterly *investment rates* is calculated as follows:

$$\frac{(4.50\% + 4.30\% + 5.25\% + 5.55\%)}{4} = 5.05\%$$

The *investment rate* for the first *security* in the series is agreed as 4.50% per annum. The first *security* in the series (Quarter 1) is for a *tenor* of 91 days.

The *initial purchase price* is calculated as follows:

$$\frac{\$50,000.00}{1 + \left( 4.50\% \times \frac{91}{365} \right)} = \$494,452.65$$

When this *security* matures at the end of the first quarter (the first *rollover date*), you purchase a second *security*.

The *face value* remains at \$500,000.00, however, your *investment rate* is now set at the agreed *investment rate* for Quarter 2 of 4.90% per annum.

Based on a *tenor* of 89 days for the second quarter, the *purchase price* of the second *security* is \$494,096.56.

The difference between the maturing *face value* and this new *purchase price* (i.e. \$5,903.44) will be the amount paid to your *nominated bank account*. For further information on payments under an Investor Step, refer to Clause 6 in the Terms and Conditions section of this PDS.

This process occurs at each *rollover date* until the *final maturity date*. On the *final maturity date* the *face value* of \$500,000.00 is paid to your *nominated bank account*.

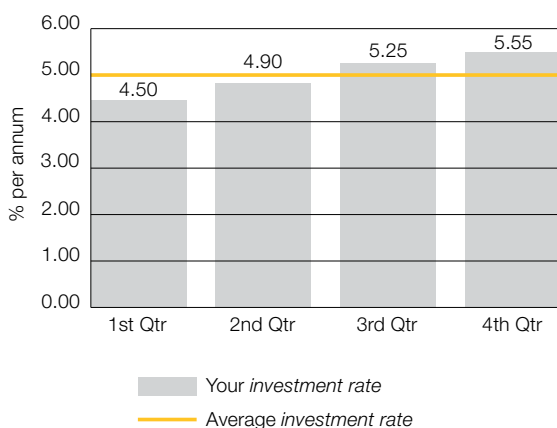
**Table 2: Investment earnings**

<i>Term</i>	<i>Investment rate</i> (% per annum)	<i>Purchase price of each</i> <i>3 month security</i>	<i>Earnings on each</i> <i>3 month security</i>
Qtr 1 (91 days)	4.50	\$494,452.65	\$5,547.35
Qtr 2 (89 days)	4.90	\$494,096.56	\$5,903.44
Qtr 3 (94 days)	5.25	\$493,329.91	\$6,670.09
Qtr 4 (91 days)	5.55	\$493,175.93	\$6,824.07
<b>Total earnings on the Investor Step</b>			<b>\$24,944.95</b>
<b>Face value that is paid on the final maturity date</b>			<b>\$500,000.00</b>

Table 2 shows how your *investment* might progress over the 1 year *term* using the scenario in Example 1. It shows that your earnings will be progressively “stepped up” from Quarter 1 to Quarter 4 as agreed between you and the Bank on the *deal date*.

Diagram 1 below is a graphical illustration of how an Investor Step works.

**Diagram 1: Investor Step**



\* Examples are used for illustrative purposes only.

## Terminating an Investor Step

If you wish to redeem your Investor Step prior to the *final maturity date*, you may apply to the Bank for a termination. Requests for a termination are to be submitted in writing to your relationship manager or any branch of the Bank. Acceptance of your application for Early Termination of your *investment* is at the discretion of the Bank. If you fail to comply with Clause 8 of the Terms and Conditions section in this PDS, the Bank may terminate your Investor Step without being requested by you to do so.

Terminations can only be for the full *face value* of your Investor Step. Partial terminations cannot be accommodated.

For a termination, the Bank, acting reasonably will calculate an amount payable to you consisting of 2 parts:

- a) *Repurchase price* – the price at which the Bank will *repurchase* the current *security* in the series.
- b) *Termination cost* – the cost of terminating your commitment to purchase the remaining *securities* in the series.

### a) Repurchase price

If you terminate your Investor Step on a date other than a *rollover date*, the *repurchase price* of the current *security* will be calculated using a *repurchase rate*, which is determined by the Bank based on:

- prevailing market interest rates on the termination date;
- remaining period to maturity of the current *security*;
- the cost incurred by the Bank to settle your termination; and
- the status of the Bank on the termination date (i.e. whether we are defined as a prime bank or a non-prime bank).

The *repurchase price* of the current *security* is calculated as follows:

**Repurchase price =**

$$\frac{\text{face value}}{1 + \left( \frac{\text{repurchase rate}}{\% \text{ per annum}} \times \frac{\text{remaining period to maturity in days}}{365} \right)}$$

If you terminate your Investor Step on a *rollover date*, the *repurchase price* will be equal to the *face value* of-that *security*.

### b) Termination cost

If you terminate your Investor Step prior to purchasing the final *security* in the series, the termination cost represents the cost to the Bank of terminating your commitment to purchase the remaining *securities* in-the series. The termination cost will be calculated by-the Bank based on:

- prevailing market interest rates on the termination-date;
- status of the Bank on the termination date (i.e. whether we are defined as a prime bank or a non-prime bank);
- future cash flow differences (arising as a result of a difference in the prevailing market interest rates on the termination date and the average *investment rate*) at each *rollover date*;
- remaining period to the *final maturity date*; and
- the costs incurred by the Bank to settle your termination.

Depending on interest rate movements since the *deal date*, the termination cost may be a positive or negative amount.

If you terminate your Investor Step while investing in the last *security* in the series (i.e. the next *rollover date* will be the *final maturity date* for the investment), no termination cost is applicable.

### Amount payable

If the termination cost is negative, then the amount payable to you on the termination date will be the *repurchase price* less the termination cost.

If the termination cost is positive, then the amount payable to you on the termination date will be the *repurchase price* plus the termination cost.

If the termination cost is zero, then the amount payable to you on the termination date will be the *repurchase price*.

Depending on the factors mentioned above, on the termination date, the amount payable to you may be:

- equal to your *initial purchase price*; or
- less than your *initial purchase price*; or
- more than your *initial purchase price*.

The Bank will notify you verbally of the amount payable as soon as practicable after making this calculation. If you accept this amount, the Bank will then send you a letter confirming the details of your termination.

The following example illustrates how an Investor Step termination works.

### Example 2\*

Following on from Example 1, you originally purchased an Investor Step with a *face value* of \$500,000.00 (the *investment rates* for each quarter are listed in Table 1).

You request the Bank to terminate your Investor Step at the end of Quarter 2 (with 185 days remaining until the *final maturity date*) and the Bank agrees to your request.

As you are terminating your *investment* on a *rollover date*, the *repurchase price* will be equal to the *face value* of \$500,000.00. Having regard to the factors outlined above, the Bank calculates the termination cost as being a negative amount of \$1,130.00. The amount payable to you upon termination is \$498,870.00 being the maturing *face value* of the Quarter 2 *security* of \$500,000.00 less the termination cost of \$1,130.00. In this example, you receive an amount that is higher than your *initial purchase price* of \$494,452.65

\* Examples are used for illustrative purposes only.

## What are the significant benefits of an Investor Step?

Benefits include:

- a fixed rate of return on your *investment* for the *term* of the *investment*;
- the flexibility of customising your income by having the *investment rate* “stepped up” or “stepped down” on each quarterly *rollover date* as agreed between you and the Bank on the *deal date*;
- you are protected against falling market interest rates during the *term* of your *investment*; and
- no transaction or account keeping fees are directly applicable (refer Appendix A of this PDS for more information).

## What are the significant disadvantages of an Investor Step?

Disadvantages include:

- you cannot benefit from increases in market interest rates that may occur during the *term* of the *investment* as your *investment rates* are agreed on the *deal date* and cannot be changed during the *term* of your Investor Step; and
- in the event of an early termination, you may receive back less than your *initial purchase price* (refer to the “Terminating an Investor Step” section in this PDS).

## What are the significant risks?

Interest rate markets may be volatile. Investments in these markets may involve actual losses if you request the Bank to terminate your Investor Step prior to the *final maturity date*. Monitoring of any risks associated with this product is your responsibility

### Market risk

Market risk is the risk that prices including interest rates will move adversely. As the return that you receive on your Investor Step and the *term* of the *investment* are both fixed, you forgo the opportunity to benefit from any rise in market interest rates during the *term*.

You should ensure that you are able to monitor and value any relevant interest rate movements when investing in an Investor Step. The Bank may be dealing on its own account in interest rate markets and such dealings may influence interest rates.

### Credit risk

Credit risk is common to all investment products that you may hold with the Bank. In all cases, you are reliant on the ability of the Bank to meet its obligations to you under the terms of this transaction. In an Investor Step, the underlying *securities* are *bills of exchange* accepted by the Commonwealth Bank of Australia, and so the obligation to pay to you the *face value* at each *rollover* and on the *final maturity date* lies with the Bank.

### Legal risk

Australia, as a member state of the United Nations, is obliged to implement United Nations Security Council sanctions. Australia also may be required to implement other international sanctions and sometimes imposes unilateral sanctions. Sanctions can cover various subject matters including financial restrictions. Consequently, the Bank may be prohibited from dealing with certain persons or entities.

This means that if the Bank is aware that you are a proscribed person or entity, then the Bank may be required to suspend, cancel or refuse you services or close or terminate any account, facility, transaction, arrangement or agreement with you. We may also be required to freeze assets of yours. You could incur significant costs as a result of these actions.

### Change in prime bank status

If you choose to invest in an Investor Step, there is a risk that the status of the Bank may change from being a prime bank to a non-prime bank during the *term* of the *investment*. This may affect you if you request an early termination of your Investor Step prior to the *final maturity date*.

### In the case of early termination

In the case of early termination of your Investor Step, the amount payable to you may be less than your *initial purchase price* due to interest rate movements and the period you held your *investment* for. Additionally, any change in the Bank's prime bank status, that has taken place since the *deal date*, could result in a higher *repurchase* rate than otherwise would have been offered to you. For more details, see the section on “Terminating an Investor Step” in this PDS.

These are the most significant risks. However, there may be other considerations that are relevant to you should you invest in an Investor Step. You should obtain your own independent professional advice to determine whether this product is appropriate to your particular circumstances.

## How do I invest in an Investor Step?

To invest in an Investor Step you must:

- contact your relationship manager or any branch of the Bank to proceed with the *investment*; and
- complete and sign the Customer Acknowledgement forms which are attached to the back of this PDS.

Shortly after the *deal date*, the Bank will send you a letter to confirm the details of your *investment*. You should respond to this *confirmation* as described in Clause 5 of the Terms and Conditions of this PDS.

## What are the costs involved in an Investor Step?

There are no transaction or account keeping fees directly applicable to this product.

Refer to Appendix A of this PDS for more information on fees and Government taxes.

## Are there any tax implications I should be aware of?

Investing and dealing with investments has tax and often social security implications. These can be complex and are invariably particular to your circumstances. Investment income in the form of earnings on an Investor Step is generally taxable income. You should discuss the timing and derivation of this income with your independent professional tax adviser.

If you are a non-resident, the Bank is obliged by law to deduct non-resident withholding tax from the earnings on your *investment*.

## What if I have a complaint?

Please contact your relationship manager or the manager of the department that handled the matter and explain the problem. Our staff will review the situation and, if possible, resolve it immediately. If the matter has not been resolved to your satisfaction, please contact our Customer Relations team via:

- our web site at:  
**[commbank.com.au/contactus/comment.asp](http://commbank.com.au/contactus/comment.asp)**;
- telephone **1800 805 605**;
- facsimile **1800 028 542**; or
- writing to:  
Customer Relations  
Commonwealth Bank  
Reply Paid 41  
Sydney NSW 2001

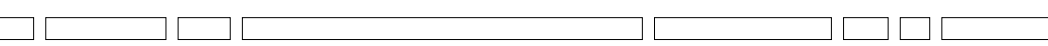
If after giving us the opportunity to resolve your complaint, you feel we have not resolved it satisfactorily, you may also lodge a written complaint with the Financial Ombudsman Service at:

Financial Ombudsman Service Limited  
GPO Box 3  
Melbourne VIC 3001

Phone **1300 780 808**

Fax **03 9613 6399**

Internet **[www.fos.org.au](http://www.fos.org.au)**



## Customer information and privacy

### Collection and verification of customer information

“Customer information” is information about a customer. It includes personal information.

The law requires us to identify our customers. We do this by collecting and verifying information about you. We may also collect and verify information about persons who act on your behalf. The collection and verification of information helps to protect against identity theft, money-laundering and other illegal activities.

We use your customer information to manage our relationship with you, provide you with the products and services you request and also tell you about the products and services offered by the Commonwealth Bank Group (“Group”), affiliated providers and external providers for whom we act as agent. If you have given us your electronic contact details, we may provide marketing information to you electronically.

The collection and verification of customer information may be carried out in different ways and we will advise you of the most acceptable methods of doing this. We may disclose your customer information in carrying out verification – e.g. we may refer to public records to verify information and documentation, or we may verify with an employer that the information you have given us is accurate.

Depending on whether you are an individual or an organisation, the information we collect will vary. For instance, if you are an individual, the type of information we may collect and verify includes your full name, date of birth and residential address. If you are commonly known by 2 or more different names, you must give us full details of your other name or names.

For instance, if you are a company, we may collect and verify information, including company incorporation and registration details, as well as details of the company’s officers and its major shareholders.

If you are acting as a trustee, we may ask you for, amongst other things, information on the beneficiaries of the trust and evidence of the existence of the trust.

If you are a partnership, we may require information including evidence of the fact that the partnership exists, as well as the full name of the partnership, the names of the partners and any business name owned by the partnership.

For other organisations, the kind of information we collect and verify will depend on the type of organisation you are.

In addition, during your relationship with us, we may also ask for and collect further information about you and about your dealings with us.

You must provide us with accurate and complete information. If you do not, you may be in breach of the law and also we may not be able to provide you with products and services that best suit your needs.

### Protecting customer information

We comply with the National Privacy Principles as incorporated into the *Privacy Act 1988* (Cth).

We disclose customer information to other members of the Group (including overseas members), so that the Group may have an integrated view of its customers and to facilitate the integrated treatment of its customers. It also enables other members of the Group to provide you with information on their products and services.

## Other disclosures

At common law, banks are permitted to disclose customer information in the following circumstances:-

- (a) where disclosure is compelled by law; or
- (b) where there is a duty to the public to disclose; or
- (c) where our interests require disclosure; or
- (d) where disclosure is made with your express or implied consent.

So that we can manage our relationships, customer information may be disclosed to:

- brokers and agents who refer your business to us;
- any person acting on your behalf, including your financial adviser, solicitor, settlement agent, accountant, executor, administrator, trustee, guardian or attorney;
- financial institutions who request information from us if you seek credit from them;
- if you have borrowed from the Bank to purchase property valuers and insurers (so that the Bank can obtain a valuation of your property, and confirm that it is insured);
- if you have insurance: medical practitioners (to verify or clarify, if necessary, any health information you may provide), claims investigators and reinsurers (so that any claim you make can be assessed and managed), insurance reference agencies (where the Bank is considering whether to accept a proposal of insurance from you and, if so, on what terms); and
- organisations to whom we may outsource certain functions.

In all circumstances where our contractors, agents and outsourced service providers become aware of customer information, confidentiality arrangements apply. Customer information may only be used by our agents, contractors and outsourced service providers for our purposes.

We may be required to disclose customer information by law, e.g. under Court Orders or Statutory Notices pursuant to taxation or social security laws or under laws relating to sanctions, anti-money laundering or counter terrorism financing.

We may send customer information overseas if:

- that is necessary to complete a transaction, or
- we outsource certain functions overseas.

We may also be permitted, as distinct from required, to disclose information in other circumstances. For more information, please refer to our Privacy Policy.

## Access to your personal information

The law allows you (subject to permitted exceptions) to access your personal information. You can do this by contacting:

Customer Relations  
Commonwealth Bank  
Reply Paid 41  
Sydney NSW 2001

We may charge you for providing access.

## Further information

For further information on our privacy and information handling practices, please refer to the Group's Privacy Policy, which is available at [commbank.com.au](http://commbank.com.au) or upon request from any branch of the Bank.

# Terms and Conditions

## 1. About these Terms and Conditions

These Terms and Conditions govern the Bank's Investor Step product. They do not include terms and conditions that apply by operation of law.

You should read these Terms and Conditions carefully and keep a copy for your future reference. In addition, you should read the Bank's information booklet "The Better Banking Book", copies of which may be obtained by telephoning the Bank on **13 2221** (between 8am and 8pm, Monday to Friday), visiting our web site at [commbank.com.au](http://commbank.com.au) or from any branch of the Bank.

The Better Banking Book contains useful information on a range of banking matters. These include the rights and obligations that arise out of the banker and customer relationship, account opening procedures, the Bank's obligations regarding confidentiality of your information, complaint handling procedures, bank cheques, the advisability of you informing the Bank promptly when you are in financial difficulty and the advisability of you reading the terms and conditions applying to any banking service provided to you or in which you are interested.

The Bank makes no representations about the taxation impacts of the Investor Step. You should seek independent taxation and/or financial advice if you are unsure of the taxation implications of making an *investment*.

The relevant provisions of the Code of Banking Practice apply to an Investor Step if that account is held by an individual, either alone or jointly with another individual, or small business customer. A copy of the Code of Banking Practice, is available at [commbank.com.au](http://commbank.com.au) or upon request from your relationship manager or any branch of the Bank.

## 2. Terms and Conditions

Where you enter into an Investor Step with the Bank, these Terms and Conditions apply to the *investment*.

## 3. Opening an Investor Step

Opening an Investor Step is conditional upon:

- (a) you providing the Bank with the necessary identification information it requires; and
- (b) the Bank carrying out any necessary verification check(s).

## 4. Investor Step

- (a) You agree to purchase a series of 3 month *securities* over a 1 year *term* where the *investment rate* on each of the four quarters will be set on the *deal date*. You can choose to start with the lowest *investment rate* and step up the *investment rate* each quarter; or you can choose to start with the highest *investment rate* and gradually reduce the *investment rate* at each quarter depending on your desired income flows, or any other combination of rates agreed upon between you and the Bank.
- (b) On the *deal date* the following details, amongst others will be agreed between you and the Bank:
  - *face value*: minimum *face value* of \$100,000.00 (denominations of \$1,000.00 thereafter); and
  - *investment rates*: the rates applicable for each *security* as agreed on the *deal date*.

## 5. Confirmation

After you purchase an Investor Step, the Bank will send you a *confirmation* setting out the details of the *investment*. Within 2 *business days* of receiving the *confirmation* you must either:

- i) if, in your opinion, there is an error in the confirmation, notify the Bank of the error; or
- ii) sign a copy of the confirmation and return it to the Bank acknowledging it is correct.

However, the transaction is valid even if these steps are not followed.

## 6. Payments under an Investor Step

- (a) Subject to clause 9, payments under an Investor Step are made as follows:
- i) on the deal date you will agree to purchase from the Bank a series of securities;
  - ii) on the lodgement date you will pay the initial purchase price for the first security in the series of securities;
  - iii) on each *rollover date* the maturing *securities* will be discharged and replaced by new *securities*. You will purchase the new *securities* from the Bank at a price calculated in accordance with these Terms and Conditions;
  - iv) payment for the new *securities* will be made by way of debit against the proceeds of the maturing *securities*. The difference between the *face value* of the maturing *securities* and the *purchase price* of the new *securities*, will be credited to the *nominated bank account*; and
  - v) on the *final maturity date*, the *face value* of the *securities* will be credited to the *nominated bank account* unless otherwise advised by you. Fees may apply, refer to Appendix A for details.
- (b) The *rollover* of *securities* described in this Clause will usually occur without any action on your part. You authorise the Bank to take all action on your behalf to effect each *rollover*.

## 7. Securities to be held by the Bank

All *securities* purchased by you as part of an Investor Step will be held by the Bank on a *safe custody* basis and you waive your right to require the Bank to deliver the *securities* to you. The Bank's only obligation to you is to pay to you the *face value* of a *security* on the *rollover date* or the *final maturity date*, subject to the Bank's right on a *rollover date* to apply the amount of the *face value* of a maturing *security* to the *purchase price* of a new *security* as set out in Clause 6.

## 8. Early termination of an Investor Step

- (a) The Bank may terminate an Investor Step before the *final maturity date* if:
- i) you do not pay on time any amount due under the investment or breach any other term of the investment;
  - ii) you fail to purchase any security on the relevant rollover date;
  - iii) you breach any of these Terms and Conditions;
  - iv) you become insolvent, bankrupt, in receivership, in liquidation or wound up; or
  - v) you breach the terms of any other investment.
  - vi) you or a signatory appears to be a Proscribed Person
- (b) The Bank will give consideration in its absolute discretion to any request in writing by you to terminate an *investment* prior to its *final maturity date* but the Bank is under no obligation to agree to the request.
- (c) Requests to terminate an *investment* can only be made for the full *face value* on a *rollover date*.
- (d) If an Investor Step is terminated prior to its *final maturity date*:
- i) you must, in addition to any other sums due hereunder, pay to the Bank any amounts required to compensate the Bank for any losses, costs (including, without limitation, termination costs) and expenses (including, without limitation, any reasonable legal or out of pocket expenses) which the Bank may reasonably incur as a result of such termination; and
  - ii) the Bank may apply the whole or any part of the moneys payable or to become payable to you under the *investment* to satisfy in whole or in part your obligations under the *investment* and these Terms and Conditions.

## 9. Refusal of service

In the event that you or a signatory appears to be a Proscribed Person, then we may, acting reasonably, immediately refuse to process or complete any transaction or dealing of yours; suspend the provision of a product or service to you; refuse to allow or to facilitate any of your assets held by us to be used or dealt with; refuse to make any asset available to you to any other proscribed person or entity; or terminate these arrangements with you. Provided we act in good faith and in compliance, or purported compliance, with any legal requirement in relation to a Proscribed Person we will be under no liability to you if we do any or all of these things. Our rights under this clause are in addition to all other rights we may have.

If we exercise our rights under this clause you must pay us damages, losses, costs (including, without limitation, termination costs) and expenses (including, without limitation, any reasonable legal or out of pocket expenses) that we may reasonably incur in relation to any action taken under this clause, including, without limitation, our refusal of service under this clause.

## 10. Your understanding of the risks involved

- (a) An Investor Step is a financial markets product and as such contains an element of risk. The level of risk varies depending on the *investment's* specific attributes (for example, its time to maturity or pricing benchmark), and how it is used (for example, as a hedge or a speculative transaction). A major risk is that which can arise from having to exit the *investment* at a loss after adverse changes in interest rates.
- (b) The Bank enters into each *investment* by you on the understanding that:
  - i) you have made your own independent decision to enter into the *investment* and as to whether that *investment* is appropriate or desirable for you; and

- ii) you have the capacity to evaluate and understand (either on your own behalf or through independent professional advice), and do understand, the *investment* and to assume (financially and otherwise) those risks.

## 11. Bank fees

There are no transaction or account keeping fees directly applicable to this product as the interest rate has been adjusted by a margin that reflects the costs incurred.

Refer to Appendix A of this PDS for further information.

## 12. Government taxes

Your Investor Step may also be subject to Government taxes and duties (if any). These may vary from State to State.

Refer to Appendix A of this PDS for further information.

## 13. Variation of Terms and Conditions

The Bank may at any time and from time to time vary these Terms and Conditions if:

- (a) i) acting reasonably, it determines that the variation is necessary, expedient or desirable to:
  - A) correct any error, inconsistency, inadvertent omission, inaccuracy or ambiguity in these Terms and Conditions;
  - B) conform the Bank with its competitors, industry or market practice or best practice in Australia or overseas;
  - C) accommodate changes to the needs or requirements of the Bank's customers (such as new product features or services); or
  - D) address any internal requirements of the Bank, for example, occasioned by changes in technology or processing (including computer systems), and
- ii) in the Bank's reasonable opinion, the variation in paragraph (a)(i) above does not cause detriment to you; or
- (b) acting reasonably, it determines that the variation is necessary, expedient or desirable for the Bank to comply with, adopt or implement any legal requirement, decision, recommendation, regulatory guidance or standard of any court, tribunal, ombudsman or regulator.

The Bank will notify you of the variation either in writing or by advertisement in the national media or local media not later than 30 days before the day on which the variation takes effect.

Nothing in this clause limits your obligations to pay Bank fees and Government taxes as set out in Appendix A.

The Bank will notify you of the introduction or variation of any Government tax or charge either in writing or by advertisement in the national media or local media unless the Government, a Government agency or representative body has already publicised the introduction or variation.

## 14. Change of personal details

You are required to notify the Bank promptly in writing of a change to your personal details, such as your name, address or nominated bank account.

## 15. Severability

If any term or condition of these Terms and Conditions is found to be void or unenforceable for unfairness or any other reason (for example, if a court or other tribunal or authority declares it so), the remaining terms and conditions will continue to apply to the extent possible as if the void or unenforceable term or condition had never existed.

## 16. Governing law

These Terms and Conditions are governed by and construed in accordance with the laws of New South Wales and the parties irrevocably and unconditionally submit to the non exclusive jurisdiction of the courts of that State and courts of appeal from them.

# Definitions

## **“the Bank”, “our”, “us” or “we”**

Commonwealth Bank of Australia ABN 48 123 123 124.

## **“bank accepted bill”**

A *bill of exchange* that has been issued by a drawer and that is subsequently accepted by a bank. If the *bank accepted bill* is subsequently on-sold to an investor, the accepting bank is obliged to pay the *face value* of the *bill* at maturity to that investor.

## **“bank bill”**

A *bank accepted bill*.

## **“bill of exchange” or “bill”**

A negotiable instrument regulated by the Bills of Exchange Act 1909 (Cth).

## **“business day”**

A day on which the Bank is open for the transaction of business in relation to an Investor Step.

## **“confirmation”**

A letter from the Bank setting out the details of your Investor Step.

## **“deal date”**

The date on which you enter into an agreement with the Bank to purchase an Investor Step.

## **“face value”**

The amount payable to you on the maturity date of each *security* purchased by you during the *term*.

## **“final maturity date”**

The maturity date of the last *security* in a series of *securities* under an *investment*.

## **“initial purchase price”**

The amount paid by you for the first *security* in a series of *securities* on the *lodgement date*.

## **“investment”**

A transaction being an Investor Step, under which you purchase from the Bank a series of *securities* all of which will have a *tenor* of between 85 and 95 days.

## **“investment rate”**

On the *lodgement date* and each *rollover date*, the return earned by you expressed as a rate per centum per annum.

## **“lodgement date”**

The date of purchase of the first *security* in a series of *securities* under an *investment*.

## **“nominated bank account”**

A bank account nominated by you and held in the same name as the *investment*.

## **“Proscribed Person”**

A person who appears to us either (a) to be a proscribed person or entity under the Charter of the United Nations Act 1945 (Cth); (b) to be in breach of the laws of any jurisdiction relating to money laundering or counter-terrorism; (c) to appear in a list of persons with whom dealings are proscribed by the government or a regulatory authority of any jurisdiction; or (d) act on behalf, or for the benefit of, a person listed in subclauses (a) – (c).

## **“purchase price”**

The amount paid by you for a *security* in the series of *securities* on a *rollover date*.

## **“repurchase”**

Where you wish to redeem all of your Investor Step prior to the *final maturity date* you may request the Bank to buy back from you the full *face value* of your *investment*.

## **“rollover”**

When a maturing *security* is discharged and replaced by a new *security*, other than on the *final maturity date*.

**“rollover date”**

The date of maturity of a *security* in a series (other than the *final maturity date*).

**“safe custody”**

An arrangement where the Bank agrees to hold a *security* purchased by you on your behalf.

**“security(ies)”**

A *bank accepted bill(s)*.

**“tenor”**

The period from the date that you purchased a *security* to the maturity date of that same *security* expressed as a number of days.

**“term”**

The period from the *lodgement date* to the *final maturity date*.

**“you“, “your”**

The customer who is the person or persons or entity in whose name the Investor Step is held.

# APPENDIX A

## Fees and Government taxes



### Bank fees

There are no transaction or account keeping fees directly applicable to this product as the interest rate has been adjusted by a margin that reflects the costs incurred.

Some related products and services, such as bank cheques and telegraphic transfers, will incur a separate fee. These fees will be set out in the PDS, terms and conditions or fees and charges brochures for these other products and services.

### Government taxes

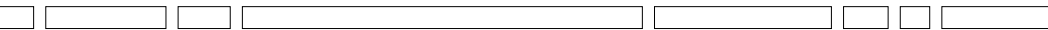
If you are a non-resident, the Bank is obliged by law to deduct non-resident withholding tax from the earnings on your *investment*.

Your Investor Step may also be subject to Government taxes and duties (if any). These may vary from State to State.



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# Customer Acknowledgement Flexi Bill Solutions for Investors – Investor Step

**Warning**

You should not enter into an Investor Step unless you have read and understood the Flexi Bill Solutions for Investors – Investor Step PDS dated 28 May 2010, including the Terms and Conditions contained within this PDS.

**Acknowledgement**

I acknowledge and agree to these Terms and Conditions. I also acknowledge and consent to the use and disclosure of my personal information as detailed in the section ‘Customer information and privacy’ in this PDS. I may, however, indicate that I don’t want to receive marketing information from the Bank by ticking the box beside my signature.

I acknowledge that the name of individual persons given to the Bank are true and correct and that the law prohibits the use of false names, as well as the giving, use or production of false and misleading information or documents in connection with the provision of financial services and the making, possession or use of a false document in connection with an identification procedure.

**Individual customer** (please use block letters)

Surname

Given name(s)

Signature of customer

Date

**Company customer** (please use block letters)

Executed by (insert company name)

In the presence of

Signature of authorised person

Date

Name of authorised person

Position of authorised person within company

Signature of authorised person

Date

Name of authorised person

Position of authorised person within company

**Customer Copy – to be retained by the customer**

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**Individual customer** (please use block letters)

Surname

Given name(s)

Signature of customer

Date

**Company customer** (please use block letters)

Executed by (insert company name)

In the presence of

Signature of authorised person

Date

Name of authorised person

Position of authorised person within company

Signature of authorised person

Date

Name of authorised person

Position of authorised person within company

**Bank Copy – to be retained by the Bank**

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