



Options Product Disclosure Statement (PDS)

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The provider of the services described in this Product Disclosure Statement is the Australian Financial Services Licensee, OpenMarkets Australia Limited ABN 38 090 472 012, licence number 246705. Registered office: Level 2, 125 Flinders Street Melbourne VIC 3000.

Things you should know:

- From July 2014 until further notice, the following Options transaction types may be accessed through an OpenMarkets trading account:
 1. Bought/Long Puts or Calls – where cash must be available upfront in your linked CMA
 2. Covered Calls – where specific stock must be lodged as collateral with the Australian Clearing House (ACH)
- You can contact OpenMarkets Client Services by email at service@openmarkets.com.au or by calling 1300 769 433 between 8:30 am and 5:30 pm (AEST) from Monday to Friday.
- OpenMarkets does not provide financial advice nor accept responsibility for financial advice provided by others
- OpenMarkets is an online broking service so you'll need access to the internet and an email account.
- Financial products purchased or transferred under these terms and conditions are held as Participant Sponsored on a HIN with OpenMarkets. In addition, cash is held in a Cash Management Account (CMA) to facilitate pre-trade risk management at a cash and stock level.
- OpenMarkets is authorised by law to ask for your Tax File Number (TFN). You are not obliged to provide your TFN and failing or refusing to do so is not an offence. However, you should be aware, failing to provide your TFN or not permitting OpenMarkets to provide it to others in relation to an investment may have tax consequences for you.

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PART 1: GENERAL INTRODUCTION

1. IMPORTANT INFORMATION

- 1.1 This is an important document. Please read it carefully and make sure you understand it before accepting its terms. Within this Product Disclosure Statement (PDS) for Options and the Client Agreement, a reference to:
 - a. Options includes exchange traded options (ETOs), low exercise price options (LEPOs) and ASX Derivative Products, and
 - b. ETOs include equity ETOs, index ETOs and LEPOs.
- 1.2 This PDS is in two parts. The first part contains all information other than the Schedule of Fees. The second part contains the Schedule of Fees. You should read both parts of the PDS before making a decision to buy or sell Options and you should retain it for future reference.
- 1.3 OpenMarkets Australia Limited (ABN 38 090 472 012) (OpenMarkets) has prepared this PDS dated 1 December 2013. Pursuant to the Corporations Act 2001 (Corporation Act), OpenMarkets is deemed to be the issuer of ETOs or LEPOs (together, Options, ETOs or ASX Derivative Products) when these products are bought or sold on the ASX through OpenMarkets. Options issued by OpenMarkets are interchangeable with contracts issued by any other Participant of ASX Group. A list of companies and indices over which Options may be bought or sold is available at www.asx.com.au, together with a list of current Option codes, and delayed price information. This PDS has not been lodged with the Australian Securities and Investments Commission (ASIC) and is not required by the Corporations Act to be lodged with ASIC. ASIC takes no responsibility for the contents of this PDS.
- 1.4 This PDS is designed to assist you in assessing whether Options are appropriate for you. It is an important document and you should read it in full. The shares and Options markets are volatile. Investments in shares and Options may involve a high degree of risk and are not suitable for all investors. Losses may be incurred as a result of movements in the underlying share or market index. If you are in any doubt as to the suitability of Options you should contact your Adviser before entering into an Options contract. Although the information in this PDS is current as at the date of publication, it is subject to change from time to time. Where such information is not materially adverse, we will provide updates at www.openmarkets.com.au. A hard copy is available on request at no charge to you. We may also be required to issue a new or supplementary PDS as a result of certain changes, in particular where the changes are materially adverse to you. Any new or supplementary PDS will be available at www.openmarkets.com.au.
- 1.5 It is not possible in this PDS to take into account your investment objectives, financial situation and particular needs (your personal circumstances). OpenMarkets does not guarantee the performance of any Option.
- 1.6 Nothing contained in this PDS constitutes the giving of general or personal financial product advice or a recommendation concerning the entry into transactions or participation in Options. In preparing this document OpenMarkets has not taken into account your personal circumstances. Before making a decision whether to invest in Options, you should seek independent tax advice.
- 1.7 Should you enter an Option transaction with OpenMarkets, it will be on the terms and conditions set out in the Client Agreement and this PDS (Terms). These Terms may include any additional terms as may be agreed between you and OpenMarkets in writing before your Options Client Account Form is signed. It is important that you read these Terms in full, as they set out your rights and obligations in relation to Options.
- 1.8 The terms "we", "us" and "our" used in this PDS is a reference to OpenMarkets.

PRODUCTS COVERED

- 1.9 This PDS relates to Options traded on the market operated by ASX Limited (ACN 008 624 691) (ASX) and settled and cleared by ASX Clear Pty Ltd (ACN 001 314 503) (ASX Clear).

ABOUT OPENMARKETS

- 1.10 OpenMarkets is a Market Participant of ASX, NSX and SIM VSE as well as a Clearing Participant of ASX Clear. It is also a Participant of ASX Settlement Pty Limited (ASX Settlement). OpenMarkets is the holder of Australian financial services licence number 246705 and provides a range of financial services to private and institutional clients as set out in its FSG contained in its Client Account documentation available online at www.openmarkets.com.au. OpenMarkets is required to comply with the provisions of the Corporations Act as administered by ASIC. If you have any queries in relation to this PDS or the services we provide, please do not hesitate to contact Client Services by email at service@openmarkets.com.au or by calling 1300 769 433.

ASX EDUCATIONAL BOOKLETS

- 1.11 ASX has prepared a number of educational booklets relating to Options. The current booklets are available free of charge to you via OpenMarkets's website at www.openmarkets.com.au or ASX's website at www.asx.com.au. A number of ASX booklets are relevant to Options and this PDS including:
- a. Options, A Simple Guide - A simple fact sheet on the basics of Options;
 - b. Index Options - A simple fact sheet on the basics of index options;
 - c. Understanding Options Trading - Discusses the features and contract specifications of Exchange Traded Options, the risks and advantages in trading Options and gives examples of how ETOs work along with basic Option trading strategies;
 - d. Understanding Option Strategies - Discusses in more detail how ETOs may be used in various trading strategies;
 - e. Margins - Explains what margins are, how they are calculated by ASX Clear and how a Clearing Participant may meet its margin obligations to ASX Clear;
 - f. Understanding Low Exercise Price Options - Explains what LEPOs are and discusses the specific features, risks and advantages in trading LEPOs;
 - g. Using Options for Margin Lending - A fact sheet on the use of Options to add to your margin lending capabilities;
 - h. Taxation Treatment of Options - An explanation from the accounting firm Deloitte as to the appropriate tax treatment of ETOs.
- 1.12 The ASX website, www.asx.com.au, contains Options calculators, tools and trading information which may be useful to you. If you cannot access the above ASX booklets via that website, please contact ASX.

2. BASIC FEATURES OF ETOs

- 2.1 The following discussion is not intended to be a detailed discussion of all features of ETOs, but rather to identify some of the key features of ETOs. For a more detailed description, you should refer to information under the heading ASX Educational Booklets in section 1 of this PDS.

TYPES OF ETOs

- 2.2 The three types of ETOs traded on ASX are as follows:
- a. Equity options are options over financial products quoted on ASX, for example, shares of listed companies. These options are known as deliverable options in the sense that, upon exercise, one party must take delivery of the underlying financial product;
 - b. Index options are options over an index such as the S&P/ASX 200 Index. These options are known as cash settled options in the sense that, upon exercise of an option, the Buyer (taker) of the option will have the right to receive an amount of money and the Seller (writer) will have a corresponding obligation to pay that amount (provided the option is in the money). The amount of money will be determined by the difference between the exercise level (set by ASX) and the Opening Price Index Calculation (OPIC) as calculated by ASX on the expiry date of the option. The OPIC is based on the first traded price of each constituent stock in the index on the expiry day (if a constituent stock does not trade on the expiry day, the last traded price from the previous trading day will be used). Cash settlement occurs in accordance with the rules of ASX Clear;
 - c. LEPOs are call options with an exercise price of one cent per underlying share or in respect of index LEPOs, an exercise level of one point of the underlying index. In other words, they function in a similar way to equity options, but with a very low exercise price.

USE OF ETOs

- 2.3 ETOs are a versatile financial product which can allow investors to:
- a. hedge against fluctuations in your underlying share portfolio;
 - b. increase the income earned from your portfolio (through the earning of premium income);
 - c. increase returns from leverage;
 - d. diversify your portfolio, and profit from market movements.
- 2.4 Their flexibility stems from the ability to both buy (take) and sell (write) an ETO contract and undertake multiple positions targeting specific movements in the overall market and individual underlying shares. Index options can

be used to trade a view on the market as a whole, or on a sector of the market that is covered by a particular index. The use of ETOs within an investor's overall investment strategy can provide flexibility to take advantage of rising, falling and neutral markets. However, both the purchase and sale of ETOs involve risks, which are discussed in greater detail later in this PDS.

CONCEPTS

- 2.5 The following concepts need to be understood before trading in ETOs:
- the effect that time has on a position or strategy;
 - how volatility changes, both up and down, may affect the price or value of an option and the potential outcome;
 - how to calculate margins and worst case scenarios for any position;
 - the likelihood of early exercise and the most probable timing of such an event;
 - the effect of dividends and capital reconstructions on an option position, and
 - the liquidity of an option, the role of market makers and the effect this may have on your ability to enter and exit a position.
- 2.6 Whilst this PDS provides product information including information about the risks, characteristics and benefits of Options, you should inform yourself of and if necessary, obtain advice about the specific risks, characteristics and benefits of the Option you intend to trade and the relevant ASX rules.

STANDARDISED CONTRACTS

- 2.7 The terms and specifications of ASX's ETOs (other than the premium, which is negotiated between the Buyer (taker) and Seller (writer)) are determined by ASX in accordance with ASX's rules. Details of the contract specifications and standardised features for ETOs traded on ASX are published by ASX on their website. ASX determines the key contract specifications for each series of ETO. For example, in the context of equity options, ASX sets the following:
- the underlying security (e.g. NAB);
 - whether the option is a call option or a put option;
 - the contract size - the number of units of the underlying security to which the option relates. The contract size for equity options set by ASX is usually 100 (e.g. one contract is equal to 100 NAB shares). The contract size of Index Options is usually \$10 per index point;
 - exercise style - that is, American style or European style;
 - the exercise price (or strike price) - the specified price at which the Buyer of an equity option can, through exercise of the option, buy (in the case of a call option) or sell (in the case of a put option) the underlying securities, and
 - the expiry date.
- 2.8 In accordance with its rules, ASX may make an adjustment to any of the above specifications, as discussed below under the heading "Adjustments" below. Similarly, for index options, the relevant parameters will also be set by ASX, including the underlying index, index multiplier, exercise style (European), exercise level intervals of the option and expiry date. Some of the concepts referred to above, such as contract size, exercise style, exercise price and expiry date are discussed in more detail below.

BUYERS (TAKERS) AND SELLERS (WRITERS)

- 2.9 Every ETO contract has both a Buyer (taker) and a Seller (writer). Buyers of ETOs are referred to as takers as they take up the right to exercise the option (e.g. the right to exercise the option and either buy or sell the underlying shares at the exercise price, in the case of an equity option).
- 2.10 Sellers of ETOs are referred to as writers because they underwrite (or willingly accept) the obligations, which are required to be performed upon exercise of the option (e.g. to buy or sell the underlying shares at the exercise price, in the case of an equity option).

CALL AND PUT OPTIONS

- 2.11 ETOs may be call options or put options. The type of call options and put options will depend on whether the options are equity options or index options.

- 2.12 For equities, a call option gives the Buyer (taker) the right, but not the obligation, to buy a quantity of underlying shares at a pre-determined price on or before a pre-determined date. If the Buyer exercises their right to buy, the Seller (writer) to which the exercise notice is assigned by ASX Clear, is required to sell the quantity of shares at the pre-determined exercise price.
- 2.13 For equities, a put option gives the Buyer the right, but not the obligation, to sell a standard quantity of underlying shares at a pre-determined price on or before a pre-determined date. If the Buyer exercises their right to sell, the Seller to which the exercise notice is assigned by ASX Clear is required to buy the quantity of shares at the pre-determined exercise price.
- 2.14 In relation to an index, a call option gives the Buyer the right, but not the obligation to exercise the option. If the OPIC level of the index exceeds the exercise level of the index option, the Buyer will, upon exercise of the option, have the right to receive an amount of money that is determined by multiplying the difference between the closing level and the exercise level by the index multiplier specified by ASX. If the Buyer exercises the option, the Seller to which the exercise notice is assigned by ASX Clear, is required to pay the corresponding amount.
- 2.15 In relation to an index, a put option gives the Buyer the right, but not the obligation to exercise the option if the OPIC level of the index is less than the exercise level of the index option. The Buyer will on exercise of the option, have the right to receive an amount of money as detailed for a call option and the Seller will need to pay the corresponding amount.

EXERCISE STYLE

- 2.16 ETOs may be of American or European exercise style. American style options can be exercised at any time prior to and including the expiry day. European style options can only be exercised on the expiry day and not before. Most equity ETOs are American style options. Index ETO and LEPOs are European style options.

PREMIUM

- 2.17 As noted, the only term of an option contract an investor trades on ASX that is not set and pre-determined by ASX, is the price of the contract. The price, known as the premium is negotiated between the Buyer (taker) and Seller (writer) of the ETO through the market.
- 2.18 The premium for an equity ETO is quoted on cents per underlying share basis, so the dollar value payment is calculated by multiplying the premium amount by the number of underlying shares (which, as discussed above, is usually 100 at the time the option series is opened, but may be adjusted by ASX). For example, if you buy one call option with a premium quoted at 25 cents per share and the contract size is 100, the total premium value is \$25.00 (being $\$0.25 \times 100$).
- 2.19 The premium for an index option is calculated by multiplying the premium (specified in terms of the number of points of the index) by the index multiplier. For example, a premium of 30 points with an index multiplier of \$10.00 represents a total premium value of \$300 per contract.
- 2.20 The value of an Option will fluctuate during its life depending on a range of factors including the exercise price, the price of the underlying share, the level of the underlying index, the volatility of the underlying share or index, the time remaining to expiry, interest rates, dividends and general risks applicable to markets.
- 2.21 Option premium can be separated into two parts – intrinsic value and time value. Different factors influence intrinsic and time value. Intrinsic value is the difference between the exercise price of the ETO and the prevailing market price of the underlying shares at any given time. Time value represents the amount you are prepared to pay for the possibility that the market might move in your favour during the life of an ETO. The time value is determined by:
- a. volatility;
 - b. time to expiry;
 - c. interest rates, and
 - d. market expectations.
- 2.22 As the expiry date draws nearer, the time value diminishes. This erosion of ETO value is called time decay. Time value does not decay at a constant rate however, typically increasing in rate as the expiry date draws closer. As a general guide, an ETO will lose a third of its time value during the first two thirds of its life and lose the remaining two thirds of its time value during the last third of its life.
- 2.23 Volatility is one of the most important influences in the price of an ETO. Volatility measures the amount by which an underlying share is expected to fluctuate in a given time period. Volatility contributes significantly to the price of ETO premium and time value. The higher the volatility, the more chance the option has of becoming profitable before expiration. Generally, the more volatile the market, the higher the premium will be as the Seller is exposed to a greater possibility of incurring loss. The receipt of higher premium is compensation for this increased risk.

- 2.24 A rise in interest rates will increase call option premiums and reduce put option premiums.
- 2.25 Ultimately, supply and demand determine the market value of all Options. During times of strong demand, premiums will generally be higher.
- 2.26 If an underlying share goes ex-dividend during the life of an ETO, the premium of a call option will be lower as shares tend to fall in value on going ex- dividend. Conversely, if the share had not gone ex-dividend during the life of the option, the premium of a put option becomes higher. This is because share price declines make call options less valuable and put options more valuable.
- 2.27 Most Option pricing involves the use of a mathematical formula that includes the calculating of intrinsic and time values of the particular Option. You should refer to the information under the heading Option pricing fundamentals in the ASX Booklet Understanding Options Trading for more information regarding the fundamentals of pricing Options. ASX also provides a pricing calculator on its website at www.asx.com.au.

“OUT OF”, “AT” OR “IN THE MONEY”

- 2.28 A call option is out of the money if the strike price of the option is greater than the market price for the underlying security or index. That is, any purchase of a security will be at a price higher than the market price. A put option is out of the money if the strike price of the option is lower than the market price for the underlying security or index.
- 2.29 A call and a put option are at the money if the strike price of the option is the same price as the market for the underlying security or index.
- 2.30 A call option is in the money if the strike price of the option is lower than the market price for the underlying security or market.
- 2.31 A put option is in the money if the strike price of the option is higher than the market price for the underlying security or index.

ADJUSTMENTS

- 2.32 ASX may, in accordance with its rules, make an adjustment to any of the specifications of an Option to reflect corporate actions in respect of the underlying shares, for example if the issuer makes a bonus issue, rights issue, special dividend, capital reduction or other similar event.
- 2.33 If ASX does make an adjustment, it will endeavour to do so in a way which puts the Buyer (taker) and Seller (writer) in substantially the same economic position they would have been in had the adjustment event not occurred, so as to preserve the value of open positions of Buyers and Sellers at the time of the adjustment.
- 2.34 In some cases, ASX may decide not to make an adjustment for a corporate action and instead, direct that open positions be terminated or closed out.
- 2.35 When ASX makes an adjustment to the terms of an option series, ASX Clear will make a corresponding adjustment to the terms of contracts that are already open.
- 2.36 For further details ASX has issued an Explanatory Note for Option Adjustments that can be viewed at www.asx.com.au.

NO ENTITLEMENTS

- 2.37 The parties to an equity option do not, under the terms of the option, have any entitlement to dividends, franking credits or other entitlements paid or made by the issuer of the underlying shares. The Seller (writer) of a call option or the Buyer (taker) of a put option will only have such entitlement should they directly hold the shares.
- 2.38 If the Buyer of a call option wants to participate in a prospective dividend or entitlement, the Buyer will need to first exercise the option, allowing sufficient time to become the registered holder prior to the ex-dividend or entitlement date. The resulting sale and purchase of underlying shares on the exercise of an equity option will settle on the third business day following the exercise of the option.
- 2.39 More information is provided on this subject under the heading “Settlement Processes” in this PDS.

EXPIRY

- 2.40 ETOs have a limited life span and typically have a monthly expiry within 12 months and a quarterly expiry for longer dated contracts.
- 2.41 Options expire on a specified day in the expiry month, as determined by ASX. For equity options, the option generally expires at 7pm Australian Eastern Standard Time (AEST) on the Thursday preceding the last Friday in the expiry month, as long as both the Thursday and Friday are full business days. Therefore, if the last day of the

month is a Thursday, the option will expire at 7pm AEST on the Thursday prior.

- 2.42 For index options and index LEPOs, expiry is at 12pm AEST on the third Thursday of the contract month provided that day is a business day.
- 2.43 On each occasion exercise notices can be made to ASX Clear by the given time on the relevant expiry date. Expiry information is available at www.asx.com.au. You should follow the links to Trading information and then Expiry calendar. ASX Clear has the right to change these expiry dates should the need arise.

EXERCISE

- 2.44 The Buyer (taker) of an ETO has the right (but not the obligation) to exercise the option contract. This means that the Seller (writer) of an ETO may be exercised against at any time prior to expiry (American style only). When the Buyer exercises an option, ASX Clear will randomly assign that exercise to an open position held by a Seller in the relevant option series.

AUTOMATIC EXERCISE

- 2.45 OpenMarkets will automatically exercise your taken ETO contract on the expiry date of the option if your contract is one cent in the money for equity options or one point in the money for index options.
- 2.46 For call options, the option will be in the money where the exercise price is below the price of the underlying shares.
- 2.47 For put options, the option will be in the money where the exercise price is higher than the price of the underlying shares.
- 2.48 All unexercised option contracts will expire on the expiry date.

DELIVERABLE OR CASH SETTLED

- 2.49 ETOs are either deliverable or cash settled.
- 2.50 Options are described as deliverable where the obligations of the Buyer (taker) and Seller (writer) are settled by the delivery of the underlying share.
- 2.51 Equity options are deliverable because upon exercise, one party is required to transfer the underlying shares to the other at the exercise price.
- 2.52 Options are described as cash settled where the obligations of the Buyer and Seller are settled by payment and receipt of a cash amount. Index options are cash settled.

SETTLEMENT PROCESS

- 2.53 When an equity option is exercised by a Buyer (taker) and the exercise is assigned by ASX Clear to an open position of a Seller (writer), a contract for the sale and purchase of the underlying shares at the exercise price will arise between the Seller and the Buyer. The parties to this transaction must then settle that transaction in the same way as any other ASX transaction for shares. Payment for and the delivery of underlying shares, occurs via ASX Clearing House Electronic Subregister System (CHES) on T+3.
- 2.54 CHES is operated by ASX Settlement Pty Limited, the settlement facility for ASX transactions and settlement will occur in accordance with the ASX Settlement Operating Rules.
- 2.55 Your obligations in relation to settlement are set out in your Client Agreement.
- 2.56 Index options are cash settled. When an index option is exercised by a Buyer and the exercise is assigned by ASX Clear to an open position of a Seller, the Seller of the option must pay the cash settlement amount to ASX Clear. That amount will be determined by the difference between the exercise level (set by ASX) and the OPIC, as calculated by ASX on the expiry date. Cash settlement occurs in accordance with the rules of ASX Clear. For more information on settlement of index options see the section entitled Trading Index Options in the ASX Booklet Understanding Options Trading.

SETTLEMENT

- 2.57 The terms of our Client Agreement with you require you to make all payments to us, whether they be payments of premiums, settlement amounts or margins, on the business day on which the relevant ETO transaction occurred.
- 2.57 Please also see the discussion on margins in section 3.

- 2.58 For cash settled ETOs the settlement amount is paid to exercising Buyers (takers) on the day following the expiry date.
- 2.59 The calculation used for settling ETOs over an index is determined by special formula. If you intend investing in ETOs over an index you should take the time to understand these arrangements. For more information please refer to the relevant section of the ASX Booklet Understanding Options Trading.
- 2.60 Payment for and the delivery of underlying shares upon exercise of an open ETO via CHES is required on T+3 (i.e. the third business day after the transaction was undertaken).
- 2.61 OpenMarkets is obliged to make the above payments to ASX within this timeframe.

COOLING OFF PERIOD

- 2.62 There are no cooling-off arrangements for ETOs.

OPENING AN ETO POSITION

- 2.63 Unlike shares, ETOs are not instruments that a person buys or sells in the ordinary sense.
- 2.64 ASX sets the terms of ETOs and, if we enter into a contract for you as Buyer (taker) or Seller (writer), we are regarded as having opened the contract for you.
- 2.65 If you have opened a position as the Buyer of an ETO, you have three alternatives:
- exercise the option
 - hold the option to expiry and allow it to expire worthless, or
 - close the position by selling an option in the same series and instructing us to close out the open position.
- 2.66 If you have opened a position as the Seller of an ETO, you have two alternatives:
- let the option run to expiry and risk being exercised (if not exercised, it will expire without any further obligation or liability to you), or
 - close out the option by buying an option in the same series (provided it has not been exercised).

CLOSING AN ETO POSITION

- 2.67 An ETO may be closed out by entering into an option in the same series, but opposite position. In other words, if you have an open position in an option as a Buyer (taker), you can close out that position by entering into an option in the same series as a Seller (writer). This effectively cancels out the open position. For example, an investor might close out an open option contract in the following scenarios:
- The investor may want to avoid an unwanted early exercise. For example, the Seller of an option may want to close out the option (by taking an option in the same series) to avoid the risk of having a Buyer's exercise notice allocated to the Seller's option.
 - The investor may want to take a profit. For example, the Buyer of a call option may have paid a premium of \$1 per option and the same option series may now be sold for a premium of \$1.20, because the price of the underlying share has increased. The Buyer may therefore close out his or her position by selling an option in the same series, profiting from the difference of \$0.20 per underlying share.
 - The investor may want to limit a loss. For example, the Buyer of a call option may have paid a premium of \$1 per option and the same option series may now be sold for only \$0.80, because the price of the underlying share has decreased or because the time to expiry has reduced. The Buyer may therefore close out his or her position by selling an option in the same series, crystallising a loss of the difference of \$0.20 per contract.
- 2.68 It is important that you advise the DTR if you are seeking to close out an existing position when placing your order over the phone. Closing out can be achieved without reference to the original party to the trade because of the process of novation. ASX Clear is able to substitute a new Buyer as the contract party when an existing Buyer sells to close their position.
- 2.69 The process of novation is discussed in more detail below under the heading The Role of ASX Clear in section 3 of this PDS.

LEPOs

- 2.70 LEPOs are essentially equity options with an exercise price of one cent per underlying share. LEPOs are

European style options, in other words, they can only be exercised on the last trading day before they expire.

- 2.71 The Buyer (taker) of a LEPO has the right to buy an agreed number of shares (e.g. 100 shares per LEPO contract) at a specified future date in return for the payment of the exercise price (one cent per share).
- 2.72 The Seller (writer) of a LEPO undertakes to sell the underlying shares at expiry in return for the exercise price. As with other options, the Seller of a call option is only required to deliver the underlying shares if the Buyer exercises the option.
- 2.73 When you enter into a LEPO you do not pay (or receive) upfront the full amount of the premium. Instead, you pay or receive margins during the life of the LEPO (that is, the LEPO is marked to market daily) and pay or receive the balance of the premium if and when you exercise the LEPO.
- 2.74 LEPOs are different from standard ETOs in a number of respects, summarised below:
- a. LEPOs are only available as call options;
 - b. LEPOs are European style options, meaning they are exercisable on the last trading day before they expire, while standard equity options are generally American style options;
 - c. LEPOs have a very low exercise price and a much higher premium – close to the initial value of the underlying shares, the subject of the LEPO;
 - d. LEPOs have only one exercise price per expiry month, unlike other options, which offer a range of exercise prices;
 - e. LEPOs do not require an amount equal to the full premium to be paid on purchase. Instead the Buyer effectively pays a margin, which represents a percentage of the value of the underlying shares. In standard equity options, the Buyer pays the premium up front and the Seller receives the premium up front;
 - f. Both the Buyer and Seller of a LEPO are subject to ongoing margining.
- 2.75 In summary, the premium for a LEPO will generally track the price of the underlying shares, so an investor's profit or loss will generally track movements in the underlying share on a one-for-one basis.
- 2.76 Buying a LEPO is similar to a forward purchase of shares, while selling a LEPO is similar to a forward sale of shares.
- 2.77 Because of their low exercise price, LEPOs trade for large premiums. The high premium exposure carries a risk similar to that of owning the shares outright or, for Sellers, short selling shares.
- 2.78 Although the exposure with LEPOs is similar to owning the underlying shares, you are not entitled to dividends or other rights attached to the shares, such as voting rights.

3. CLEARING AND SETTLEMENT

- 3.1 ETOs traded on ASX are cleared through ASX Clear, a licensed clearing and settlement facility under the Corporations Act.
- 3.2 OpenMarkets, as a participant of ASX Clear will clear and settle all ETOs traded with OpenMarkets. In doing so, OpenMarkets must comply with the ASIC Market Integrity Rules and ASX Clearing Operating Rules.

THE ROLE OF ASX CLEAR

- 3.3 When we enter into an ETO for you, the transaction is reported to ASX Clear for registration.
- 3.4 Upon registration of a contract by ASX Clear, the original traded contract is terminated and replaced by two contracts, known as Derivatives CCP Contracts. One contract is between the Clearing Participant who clears the contract for the Buyer (taker) of the option and ASX Clear. The other contract is between the Clearing Participant who clears the contract for the Seller (writer) of the option and ASX Clear.
- 3.5 This process of registration and creation of two Derivatives CCP Contracts is known as novation and is described briefly in the ASX booklet Understanding Options Trading.
- 3.6 You, as the client, are not party to either of those contracts actually registered with ASX Clear.
- 3.7 Although OpenMarkets may act on your instructions or for your benefit, upon registration of the ETO with ASX Clear in our name, we incur obligations to ASX Clear as principal, even though the ETO was entered into on your instructions.
- 3.8 All ETOs traded for you by OpenMarkets will be cleared by OpenMarkets.

MARGINS

- 3.9 ASX Clear contracts with Clearing Participants as principals.
- 3.10 Where a Clearing Participant has an exposure under an ETO contract to ASX Clear, ASX Clear will call amounts of money known as margin from the Clearing Participant as cover.
- 3.11 Margins are generally a feature of all Options and are designed to protect ASX Clear against default. A margin is the amount calculated by ASX Clear as being necessary to cover the risk of financial loss on an ETO contract due to an adverse market movement.
- 3.12 The Seller (writer) of an ETO will ordinarily be required to pay margin in respect of that contract or provide collateral acceptable to ASX Clear. This is because ASX Clear is exposed to the risk that the Seller will not perform their obligations if and when the option is exercised.
- 3.13 The Buyer (taker) of an ETO will not be required to pay margin in respect of that contract, because they are not at risk – they must pay the premium up front and that is the maximum amount the Buyer of the option can lose in respect of that contract (together with any transaction costs).
- 3.14 The total margin called by ASX Clear for ETOs is made up of two components, in each case, determined by ASX Clear:
- premium margin – the market value of the particular position at the close of business each day, and
 - risk margin – the potential change in the price of the option contract assuming the assessed maximum probable intraday movement in the price of the underlying share or index.
- 3.15 Amounts of margin are determined daily by ASX Clear, following the close of trading each day. In times of extreme volatility ASX Clear may make an intraday margin call.
- 3.16 OpenMarkets will, under the terms of our Client Agreement, call from you all amounts of margin which ASX Clear requires in respect of positions which we have entered into for you.
- 3.17 OpenMarkets may also call for greater amounts of margin if we regard this as appropriate.

ADDITIONAL MARGINS

- 3.18 At our discretion OpenMarkets can assign an additional margin buffer (margin multiplier) to each account to be paid to OpenMarkets above those set by ASX Clear. We may, at our discretion, assign a maximum margin limit to each account.
- 3.19 You will need to ensure your total trade risk does not exceed the account's cash or stock position.
- 3.20 In addition to the margins payable to ASX Clear, OpenMarkets might, for instance, apply a margin multiplier of:
- 20% to Australian resident retail clients accounts above the ASX Clear calculated margins;
 - 35% to foreign resident retail client accounts above the ASX Clear calculated margins.
- 3.21 By way of example if your margin requirement to ASX Clear is \$1000, you will be required to provide OpenMarkets with \$1,200 if you are an Australian resident retail client and \$1,350 if you are a foreign retail client.
- 3.22 OpenMarkets may, at its sole discretion, impose a higher margin should it form the view that it is warranted.
- 3.23 Any additional margin not called by ASX Clear will be deposited in OpenMarkets' trust account.

COLLATERAL

- 3.24 ASX Clear margin obligations may be met by paying cash or by providing certain types of eligible collateral (e.g. shares).
- 3.25 Shares (held by you), which are acceptable to ASX Clear may be lodged with ASX Clear as collateral for margin obligations relating to ETO positions.
- 3.26 Unlike cash, when shares are lodged with ASX Clear, the shares are held as third party security in the sense that they represent collateral provided by you to secure OpenMarkets' obligations to ASX Clear. The lodged shares cannot be used by OpenMarkets in relation to OpenMarkets' dealings, or for our other clients in relation to their dealings, unless authorised by you.
- 3.27 As a risk management tool, ASX Clear will likely apply a haircut in relation to the value of shares lodged. For example, if you lodge \$10,000 worth of shares and ASX Clear applies a 30% haircut, only \$7,000 will be considered as collateral cover for any margin obligations.
- 3.28 The margining process used by ASX Clear is explained in detail in the ASX booklet Margins which is available on

the ASX website.

- 3.29 You must pay margin to OpenMarkets, or provide alternative collateral that is acceptable to us, within 24 hours of being advised of the call for it (or sooner as required by OpenMarkets).
- 3.30 Any interest levied on late settlement and margin payments is due and receivable at the time the amount is levied and within one business day of the demand being made by OpenMarkets.

CLIENT TRUST ACCOUNTS

- 3.31 The Corporations Act provides that your money held in OpenMarkets™ trust account can be used for the purposes of meeting margin obligations, guaranteeing, securing, transferring, adjusting or settling your dealings in options. This money will not be used to meet the obligations of any other party.

NATIONAL GUARANTEE FUND

- 3.32 The National Guarantee Fund (NGF) provides investors with protection in the following circumstances:
- if an equity option is exercised, the NGF guarantees completion of the resulting trades in certain circumstances, and
 - if you have entrusted property to OpenMarkets in the course of dealing in ETOs, and either party becomes insolvent, you may claim on the NGF in accordance with the rules governing the operation of the NGF, for any property which has not been returned to you or has not otherwise been dealt with in accordance with our obligations to you.
- 3.33 There are limits on claims against the NGF for property entrusted. For more information on the possible protections offered by the NGF see www.segc.com.au.

4. BENEFITS

BENEFITS OF ETOs

- 4.1 ETOs have a number of advantages including:
- Hedging - Investors can hedge (protect) their share portfolio against a drop in value by, for example, buying (taking) equity put options over particular shares;
 - Income - Shareholders can earn income by selling (writing) call options over underlying shares they already hold. As a Seller (writer) of options, the investor will receive the premium amount upfront, when the option transaction is entered. However, the Seller will need to maintain margin obligations throughout the life of the option, and the position could be exercised. This exercise will result in the Seller being required to deliver the underlying shares to the Buyer (taker) at the exercise price;
 - Time to decide - By buying a call option, the purchase price for the underlying shares is locked in. This gives the call option holder time to decide whether or not to exercise the option and buy the shares. The holder has until the expiry date to make the decision. Likewise the Buyer of a put option has time to decide whether or not to sell the shares;
 - Reduce default risk - ETOs benefit from standardisation and registration with a clearing and settlement facility that reduces counterparty default risk. OpenMarkets™ risk is to ASX Clear, not to a third party. This process also provides the benefit that an open position can be closed out without having to deal with the original counterparty;
 - Speculation - ETOs can be used for speculation where the flexibility of entering and exiting the market prior to expiry (subject to liquidity) permits an investor to take a view on market movements and trade accordingly. In addition, the variety of option combinations allows investors to develop strategies regardless of the direction of the market;
 - Profit in a rising or falling market - Investors can profit from both rising and falling markets depending on the strategy they have employed. Strategies may be complex and will have different levels of risk;
 - Leverage - Trading in options can allow investors to benefit from a change in the price of the share without having to pay the full price of the share. An investor can purchase an option (representing a larger number of underlying shares) for less outlay and still benefit from a price move in the underlying shares. The ability to make a higher return for a smaller initial outlay is called leverage. Investors however, need to understand that leverage increases risk;
 - Diversify portfolios - Given the lower initial outlay attached to options, investors can diversify their

portfolios and gain broader market exposure over a range of shares or an index;

- i. Offsetting positions - Investors can reduce their initial outlay to the extent that they have offsetting positions. An ETO position may be closed out by placing an order equal and opposite in effect to the original order – this effectively cancels out the open position;

INFORMATION ON TRADING STRATEGIES

- 4.2 For information and examples regarding trading strategies using ETOs, refer to the Pay-off section in the ASX booklet Understanding Options Trading available on the ASX website.

BENEFITS OF LEPOs

- 4.3 LEPOs carry all the benefits detailed above for ETOs other than time to decide. LEPOs have additional advantages including:
 - a. when opening a LEPO contract you gain exposure to the full value of the underlying shares but actually pay only a fraction of the full premium of the LEPO upfront. This potentially provides a greater return to the investor but also means LEPOs have a higher risk profile;
 - b. selling a LEPO gives you exposure to a decline in the value of the underlying asset, enabling you to profit if the price of the asset falls. The sale of a LEPO can be compared to a short position over shares. Using a LEPO can also be a cost effective alternative to borrowing to fund a purchase of shares;
 - c. credit margins from existing open positions may be used to reduce the initial margin payable. This can further reduce the cash outlay when opening a contract;
- 4.4 LEPOs are European style options, meaning they are only exercisable at expiry and you will not have to be concerned about the possibility of an early exercise.
- 4.5 For further information and detailed examples of LEPOs trading, refer to the LEPOs Low Exercise Price Options Explanatory Booklet on the ASX website.

5. RISK DISCLOSURE

- 5.1 Trading in ETOs can carry the risk of substantial loss. Accordingly ETOs are not suitable for some investors. It is essential you understand the nature and extent of your potential exposure to risk before opening a position. Carefully consider whether trading ETOs is appropriate in light of your investment objectives and financial circumstances. The risks attached to investing in ETOs will vary in degree depending on the position taken.
- 5.2 The Buyer (taker) of an ETO, whether it is a call option or a put option, has a known and limited potential loss. If an ETO expires with no value, the Buyer will lose the total value paid for the option (the premium), plus any transaction costs incurred.
- 5.3 The Seller (writer) of an ETO may entail considerably greater risk. The premium received by the Seller of an ETO is both limited and fixed, however the Seller may incur substantially greater loss than that sum and indeed be exposed to unlimited losses in certain circumstances (e.g. sold naked call).
- 5.4 This PDS does not cover every aspect of risk associated with ETOs. For further information concerning risks associated with ETO trading please refer to the ASX booklet Understanding Options Trading and in particular the section entitled Risks of options trading.

RISKS OF ETOs

- 5.5 In deciding whether or not you should trade ETO contracts, you should be aware of the following matters relating to risk:
 - a. Market risks - As a general rule, movements in the value of the underlying share or index will significantly affect the value of ETOs (although the change may be at a different rate or in a different direction). Such movements may cause the value of the option to fall in price or become worthless at or before expiry. The value of the underlying share or index is affected by information that is announced to ASX. Accordingly, it is advisable that an investor in ETOs regularly reviews this information (which can be viewed on ASX's website).
 - b. Corporate activity - Where corporate activity (e.g. takeover, bonus issue, rights issue) occurs in an underlying share, this will have an effect on the corresponding open ETO positions. OpenMarkets has no control over the effect of the corporate activity on open ETO positions and cannot foresee the specific risk or outcome (including as to the manner of any adjustments made by ASX to the ETO at the time of the corporate activity in question).

- c. Effect of leverage - The high level of leverage that can be obtained by trading ETOs (due to the low level of initial capital outlay) can work against, as well as for, the investor. Depending on market movements, the use of leverage will magnify the level of losses, for instance, when compared with the same sized investment in the underlying share.
- d. Limited life span - ETOs have a limited life span. The value of the ETO erodes over its life and this accelerates as expiry approaches. You should consider the life span of the ETO to ensure it meets your investment needs. For instance, if your intent in purchasing an ETO is to hedge an existing position, you should ensure it has sufficient life span to achieve this objective.
- e. Loss of premium for Buyers (takers) - The maximum loss in buying (taking) an ETO is the amount of premium paid plus transaction costs. If the option expires worthless, the Buyer will lose the total value paid for the option (the premium) plus transaction costs.
- f. Unlimited loss for Sellers (writers) - While Sellers of ETOs earn premium income, they may also incur unlimited losses if the market moves against the option position. The premium received by the Seller is a fixed amount; however the Seller may incur losses greater than that amount. For example, the Seller of a call option has increased risk where the market rises and the Seller does not own the underlying shares. If the option is exercised, the Seller of the option is forced to buy the underlying shares at the current (higher) market price in order to deliver them to the Buyer at the exercise price. Similarly, where the market falls, the Seller of a put option that is exercised is forced to buy the underlying shares from the Buyer at a price above the current market price.
- g. Loss of shares on exercise - Sellers of call options where the Seller owns the corresponding amount of underlying shares will be required to deliver those shares at the exercise price should the option be exercised.
- h. Loss of margin - Sellers of options could sustain a total loss of the amount of the margin deposited with their broker or ASX Clear if they close out their position or cannot maintain the position should the market adversely moves against the position.
- i. Margin Calls - Your liability in relation to a written option contract is not limited to the amount of the margin paid. If the market moves against your position or margin levels are increased, you may be called upon to pay substantial additional margin on short notice to maintain your position, or upon settlement of contracts. If you fail to comply with a request for additional margin within the time prescribed, OpenMarkets may close out your position and you will be liable for any loss that might result.
- j. Changes made by ASX Clear or OpenMarkets which may impact on margins - There may be certain changes which OpenMarkets or ASX are required or authorised to make which have an impact on the margins required of you. These may include changes by ASX Clear as to whether it accepts certain collateral and how it is valued. Further, ASX Clear may change their method of calculating margins or OpenMarkets may insist on you paying additional margins, including by way of a margin multiplier.
- k. Close-out difficulties - Under certain conditions, it may become difficult or impossible to close out a position. The relationship between the price of an ETO contract and the underlying share may become distorted. Examples of when this may happen include when there is a significant change in the price of the underlying share over a short period of time or if there is an absence or reduction in the number of willing Buyers and Sellers in either the ETO market or the underlying market. Additionally if the market is suspended or disrupted for any reason, this may also impair the ability to close-out the position. Similarly, events such as these in relation to the underlying market for the share may make it difficult for you to hedge or maintain your exposure under an open ETO contract.
- l. ASIC and ASX powers - ASIC, ASX and ASX Clear have discretionary powers in relation to the market and the operation of the clearing facility. They have power to suspend the market operation, or lift market suspension in options while the underlying shares are in trading halt if the circumstances are appropriate, restrict exercise, terminate an option position or substitute another underlying share, impose position limits or exercise limits or terminate contracts - all to ensure fair and orderly markets are maintained as far as practicable. These actions can affect your option positions.
- m. Trading disputes - Trades undertaken on the ASX may be subject to dispute. When a trade is subject to a dispute ASIC and ASX have powers, in accordance with their rules, to request that a broker amend or cancel a trade, which will in turn result in the ETO contract with the client being amended or cancelled. In some situations, ASIC and ASX may also exercise powers to cancel or vary, or direct the cancellation or variation, of transactions.
- n. Trade amendments and cancellations - Under OpenMarkets' Client Agreement, we have the ability to amend or cancel trades. This could cause you to suffer loss or increase your loss. A trade executed on your behalf can also be amended or cancelled even where the trade has been confirmed to you.
- o. System outages - Trades undertaken on the ASX are traded on an electronic trading platform and cleared through ASX Clear, which relies on electronic systems. As with all such electronic platforms and systems, they may be subject to failure or temporary disruption. If the system fails or is interrupted OpenMarkets will have difficulties in executing all or part of your order according to your instructions. Your ability to

recover certain losses in these circumstances will be limited given the limits on liability imposed by the ASX, ASX Clear and OpenMarkets. Any market disruption may mean you are unable to deal in ETOs when desired and as a result you may suffer a loss. Common examples of disruption include a fire or other exchange emergency. The exchange could, for example, declare that an undesirable situation has developed in a particular ETO contract and suspend trading. Exchanges or Participants may also be able to cancel transactions under their rules.

- p. Capital loss - By trading in ETOs, you are exposed to the risk of losing capital. Investors should not risk more capital than they can afford to lose. While the level of risk exposure you wish to endure is ultimately a question for you, a good general rule is never speculate with money which, if lost, would alter your standard of living.
- q. Default - OpenMarkets' Client Agreement sets out various events of default. These include a failure by you to perform any obligation arising out of the opening, closing exercise or expiry of an Option including any call for margin. If you commit an event of default, OpenMarkets has extensive rights, including the right to enter into one or more transactions to effect the close out of one or more of your open contracts, and the right to sell any financial products or other property of yours held by OpenMarkets and offset the proceeds of sale against any amounts you owe to OpenMarkets. These transactions are taken at your risk and you would be liable for any deficiency that may result.

RISKS OF LEPOs

- 5.6 LEPOs are subject to all of the risk factors that affect standard ETOs as outlined above. However, the Buyer (taker) of a LEPO has a significantly higher risk profile than they would with a standard ETO because the premium is larger and will be closer to the full value of the underlying share than a standard ETO. The risk is however still limited to the full amount of the LEPO premium.
- 5.7 Although the Buyer of a LEPO may only be required to outlay a relatively small amount of money when the LEPO is entered into, at expiry, if the Buyer of a LEPO does not exercise the LEPO, they will lose an amount approximately equal to the then current premium of the LEPO.
- 5.8 Both Sellers (writers) and Buyers of LEPOs are required to pay margins to ASX Clear and positions are marked to market daily.

PROTECTION

- 5.9 When selling (writing) an ETO or LEPO, the initial income or premium may seem attractive but the downside may be unlimited. Risk minimisation strategies (protection) should be employed to mitigate losses that may arise from an adverse margin movement or adverse market condition.
- 5.10 Whilst this PDS provides information about the risks, characteristics and benefits of ETOs and LEPOs generally, investors should inform themselves and if necessary obtain advice about the specific risks, characteristics and benefits of the ETO or LEPO they intend to trade.

6. COSTS

- 6.1 The costs include:
 - a. Brokerage and exchange fees as relates to ETOs. Set out in Part 2 of this PDS;
 - b. Premium - If you are the Buyer (taker) of an ETO, you will be required to pay a premium in connection with the purchase of the ETO contract. If you are the Seller (writer) of an ETO, you will be entitled to receive a premium in connection with the sale of the ETO contract. For further detailed information on the premium in respect of an ETO contract, refer to the section Option Pricing Fundamentals of the ASX booklet Understanding Options Trading and also the ASX's options calculator available at ;
 - c. Margin and collateral - If you are the Seller of an ETO contract, you will be required to provide margin, and in certain circumstances collateral, to ASX Clear in accordance with the terms of your Agreement with us. ASX Clear calculates margin amounts using a margin methodology system, currently ADMS (ADMS). For further detailed information on margin and collateral requirements, refer to the ASX Margins booklet available at ;
 - d. Additional margin - Details of any additional margin requirements OpenMarkets may call over that required by ASX Clear are as discussed under the headings Margins and Additional Margins in sections 3.2 and 3.3 of this PDS.

LIABILITY

- 6.2 For Buyers (takers), trading options may result in a loss situation if the options are trading out of the

money (for call options where the exercise price is higher or lower for put options, than the current market price), however the amount of the loss for a taker is limited to the premium paid. The liability of a Seller (writer) is potentially unlimited (naked position).

7. TAX IMPLICATIONS

Warning

- 7.1 The information below is based on existing Australian tax law and established interpretations as at the date of this PDS.
- 7.2 It is intended as a brief guide only and does not cover every aspect of taxation related with the use of ETOs.
- 7.3 The information applies to Australian resident investors only.
- 7.4 It is important to note that your tax position when trading ETOs will depend on your individual circumstances, in particular whether you are trading on a revenue or capital account or whether you are subject to the Taxation of Financial Arrangements (TOFA) rules, contained in Division 230 of the Income Tax Assessment Act 1997.
- 7.5 The taxation of Options can be complex and may change over time. Accordingly, we recommend you seek professional tax advice before entering into or disposing of an ETO.
- 7.6 OpenMarkets and its employees are not able to give tax or legal advice. You should not rely solely on the information in this PDS when making decisions about your investments.
- 7.7 In order to determine the taxation consequences of any transactions, you must first determine whether the TOFA rules apply.

TOFA

- 7.8 Depending on the relevant circumstances a taxpayer may be subject to the TOFA rules.
- 7.9 ETOs covered by this PDS are expected to qualify as financial arrangements and therefore the TOFA rules are likely to have a significant impact on the taxation of ETOs. Briefly, the rules:
 - a. generally deem gains and losses from financial arrangements to be on revenue account
 - b. impact on the timing of the recognition of the gains and losses, and
 - c. may cause unrealised gains and losses to become subject to tax.
- 7.10 Below is a brief summary of the rules. The TOFA rules are complex and it is strongly recommended that taxpayers seek specific tax advice on the application of the rules to their dealings.

APPLICATION

- 7.11 Generally, the TOFA rules will not apply to individuals, small superannuation funds and small securitisation vehicles. However, the rules will apply to these taxpayers if the financial arrangement involves substantial tax deferral.
- 7.12 The TOFA rules do apply to most corporate taxpayers provided certain turnover and other tests are met.

IMPACT

- 7.13 The TOFA rules allow taxpayers to make a number of elections that determine how gains and losses from financial arrangements will be taxed.
- 7.14 The elections are generally irrevocable.
- 7.15 If taxpayers do not make any elections other than to enter into the TOFA regime early, the rules should treat most gains and losses from ETOs on a realisation basis.
- 7.16 Gains from exercising ETOs will not contribute to the cost base of the asset received upon the exercise. However, the accruals method may apply in some cases to spread the recognition of some gains and losses over the life of the ETO.
- 7.17 The fair value and financial report elections include in the tax calculation, gains and losses from financial arrangements that are reflected in the profit and loss statement (e.g. financial arrangements that for accounting purposes are classified as held for trading or designated as valued at fair value through profit and loss). This

means that unrealised gains and losses may be subject to tax. If you made a valid fair value or financial reports election and it did not cease to apply to you, the gains and losses from ETOs for tax will be aligned to the gains and losses recognised in the profit and loss for accounts. The hedging election allows tax matching of the gains and losses from the underlying hedged item. The matching is both timing (i.e. over the time the underlying item is held) and character (i.e. will take on tax character, revenue or capital, of the underlying item). The arrangements subject to the hedging election will not be subject to the fair value or financial reports elections, even if those are made. If you made a valid hedging election and an ETO qualifies for the hedging election treatment, the gains and losses from the ETO will be matched to the gains and losses from the underlying

hedged item. The conditions for the hedging election are complex and include documentation and hedge effectiveness requirements.

REVENUE ACCOUNT

- 7.18 For Australian resident investors that are a Seller (writer) of an option in the ordinary course of business or the option has been sold over an underlying revenue asset, the option will be treated as being on revenue account.
- 7.19 The premium received by the Seller of the option will be assessable on a due and receivable basis. Where any premium is credited to the Seller's Client account the amount will still be assessable on this basis. Any subsequent margin calls are not deductible when they are deposited by the Seller into their Client account. These margins will merely reduce any net position of the Seller upon the closeout, settlement or exercise of the option by the Buyer (taker). Where interest is received by the Seller on the margins held in their Client account, this is required to be included in the Seller's assessable income.
- 7.20 A Buyer will generally hold an option on revenue account when it is held or traded in the ordinary course of business, or the option is used to hedge an underlying revenue asset. Where this is the case, any premium paid by the Buyer is generally regarded as being deductible on a due and payable basis. This will generally be at the time the option is entered into.
- 7.21 There are no further tax implications where an option on revenue account lapses. However, where an option on revenue account is exercised, the option strike price will form part of the acquisition cost or disposal proceeds for the underlying asset in question. Alternatively, where the option is closed-out prior to its expiration, any gain or loss on the option position will be treated as assessable or deductible as the case may be.

CAPITAL ACCOUNT

- 7.22 Where a Seller (writer) sells (writes) an option over an underlying capital transaction, the option will be held on capital account. Consequently, any income tax implications will be determined in accordance with the Capital Gains Tax (CGT) provisions. The premium received by the Seller of the option will give rise to an assessable capital gain on a received or a receivable basis. Where any premium is credited to the Seller's ASX Clear account the amount will still be assessable on this basis. Any subsequent margin calls will merely reduce any net position of the Seller upon the close-out, settlement or exercise of the option by the Buyer (taker). Where interest is received by the Seller on the margins held in their ASX Clear account, this is required to be included in the Seller's assessable income.
- 7.23 Where a call option is exercised, the option premium and the proceeds on the sale of the underlying asset should be treated as a single transaction. Accordingly, both the premium and the proceeds received will form part of the Seller's capital proceeds for CGT purposes. This may have practical implications for the Seller of options where the premium and sale proceeds are received in different financial years.
- 7.24 Where a put option is exercised, the option premium paid and exercise price will form part of the cost base of the underlying asset for the investor. Accordingly, both the premium and the strike price paid will form part of the Seller's cost base of the underlying asset for CGT purposes. This may have practical implications for the Seller of options where the premium is received in a different financial year to the payment of the strike price and acquisition of the underlying capital asset.
- 7.25 A Buyer will generally hold an option on capital account where an underlying capital transaction is being hedged. Consequently, any income tax implications will be determined in accordance with the CGT provisions. At the time the premium is paid, there will be no taxation consequences for the Buyer in respect of any premium paid for options that are held on capital account.
- 7.26 When an option on capital account lapses the Buyer will realise a capital loss equal to the amount of the premium paid. When an option is settled or closed out, the Buyer will realise a capital gain or loss depending on the amount paid (being the premium plus any incidental costs) for the option and the amount received on settlement.

- 7.27 Where a call option is exercised, the option premium and exercise price will form part of the cost base of the underlying asset for the Buyer.
- 7.28 Where a put option is exercised, the Buyer will generally deduct the option price from the proceeds received on the disposal of the underlying asset.

LEPOs

- 7.29 From an income tax perspective there are no specific legislative rules dealing with LEPOs. The taxation consequences of investing in LEPOs will be determined by having regard to the respective circumstances of the investor according to general tax principles.
- 7.30 Generally, the taxation consequences of investing in LEPOs will be the same as those outlined above. However, an alternate view exists that is again essentially the same as that outlined above, except that the relevant point for determining any taxation consequences does not occur until the LEPOs are closed out, exercised or expire.

GOOD AND SERVICES TAX

- 7.31 The purchase and disposal of ETOs over shares and any index by investors is not subject to goods and services tax (GST) other than in respect of any brokerage or other transactional costs.

8. DISPUTE RESOLUTION SYSTEM

- 8.1 OpenMarkets is committed to a high level of client service and responding to any concerns or complaint promptly, fairly, consistently and in a professional manner. If you have any concerns about the services we provide to you please take the following steps:

Contact our Client Service Team and discuss the complaint directly.

If you do not feel comfortable discussing the complaint with Client Services or your complaint is not satisfactorily resolved, please telephone OpenMarkets and ask to speak with our Compliance Officer. We suggest you put your complaint in writing at this time so that the issues are fully documented and understood by the parties. Your complaint should be addressed to:

OpenMarkets Australia Limited
Attn: Compliance Officer
PO Box 24112
Melbourne VIC 3001
Fax: +61 3 9654 7096

- 8.2 Every effort will be made to resolve your complaint within 45 days. If you are still not satisfied with the outcome, you may take your complaint to an external dispute resolution scheme. OpenMarkets is a member of the scheme operated by the Financial Ombudsman Service (FOS). You should write to:

Financial Ombudsman Service
GPO Box 3 Melbourne VIC 3001
Tel: 1300 780 808
Fax: +61 3 9613 6399
Email: info@fos.org.au
Web: www.fos.org.au

- 8.3 You may wish to consult ASIC in relation to your complaint. ASIC's website contains information on complaining about companies and people and describes the types of complaints handled by ASIC. ASIC's details are as follows:

Tel: 1300 300 630
Email: infoline@asic.gov.au Web: www.asic.gov.au

You may wish to consult ASX. You can write to:

Compliance ASX Limited
20 Bridge Street
Sydney NSW 2000

PART 2: SCHEDULE OF FEES

This document forms part of the PDS. This document should be read in conjunction with Part 1 of the PDS. The following information relates to the way we charge for transacting in ETOs for you.

1. BROKERAGE (EXCLUDING ASX CLEAR FEES)

Service	Fee (including GST)	Minimum	Above Minimum
Online Trading via OpenMarkets WebTrader or Pulse	Min. \$28.00 or 0.28% per trade, exercise or assignment	\$28.00 up to \$10,000 transaction value	0.28% above \$10,000

2. GST

- 2.1 An amount equal to the amount of GST will be charged to you on all brokerage and fees, currently at the rate of 10%.

3. INTEREST

- 3.1 ASX Clear will pay interest to OpenMarkets on cash lodged as collateral to cover ASX Clear margins.
- 3.2 Any interest paid by ASX Clear to OpenMarkets will be at the Reserve Bank cash rate less 65 basis points (0.65%).

4. ASX CLEAR FEES

- 4.1 ASX Clear charges a registration fee of \$0.143 per equity option contract, including GST. If you exercise or are assigned on an equity option position, ASX Clear charges an exercise fee of \$0.055 per contract, including GST.
- 4.2 In the case of index options, ASX Clear charges a registration fee of \$0.495 per contract and an exercise fee of \$0.385 per contract (both inclusive of GST).
- 4.3 The exact cost of your transaction will be disclosed on your confirmation.

5. TAX DEDUCTIBILITY

- 5.1 Some fees that we charge may be tax deductible. You must confirm this with your tax adviser or accountant in relation to your specific situation.

6. ADDITIONAL FEES

- 6.1 For any trade value or margin call outstanding, OpenMarkets will charge a late settlement fee of 0.04% of the total outstanding per day (due to provision of funding by OpenMarkets).