

# FinClear Services Pty Ltd

## Exchange Traded Options

### Product Disclosure Statement

Issue Date: 5 October 2021

#### **Important Information**

This Product Disclosure Statement (**PDS**) in relation to Exchange Traded Options (**ETOs**) is issued by FinClear Services Pty Ltd ABN 60 136 184 962, AFSL No 338 264 (**FinClear**).

Changes to this PDS that are not considered to be materially adverse to you will be available from the FinClear website at [www.finclear.com.au](http://www.finclear.com.au) or you may contact your financial adviser to request a paper copy of the updated information.

Certain changes may require FinClear to issue a new or supplementary PDS which will be made available on the FinClear website or you may request a hard copy by contacting your financial adviser.

Trading ETOs can involve considerable risks and you should only trade ETOs if you understand the nature of the product, the risks, your rights and your obligations. Before trading in ETOs, carefully consider this PDS and the Australian Securities Exchange (**ASX**) booklets on options and assess your experience, investment objects, financial resources and other relevant factors.

FinClear is a wholly owned subsidiary of FinClear Holdings Ltd ABN 52 628 360 323 and is a trading participant of the ASX and Chi-X Australia Pty Ltd, a clearing participant of ASX Clear Pty Limited and a settlement participant of ASX Settlement Pty Limited.

For further information please email: [compliance@finclearservices.com.au](mailto:compliance@finclearservices.com.au)

## Contents

<b>1. Terms used in this PDS</b> .....	2
<b>2. Purpose of this PDS</b> .....	2
<b>3. What products does this PDS cover?</b> .....	2
<b>4. Who is FinClear Services?</b> .....	2
<b>5. Arrangement with the Correspondent</b> .....	2
<b>6. The Correspondent</b> .....	2
<b>7. About exchange traded options</b> .....	3
<b>8. Benefits of trading in ETOs</b> .....	3
<b>9. Risks of trading in ETOs</b> .....	4
<b>10. How do ETOs work?</b> .....	5
<b>11. Fees and charges for trading in ETOs</b> .....	7
<b>12. Other things you need to know</b> .....	8
<b>13. Significant Taxation Implications</b> .....	8
<b>14. Complaints and Dispute Resolution</b> .....	9
<b>15. Compensation Arrangements</b> .....	9

## 1. Terms used in this PDS

AFCA	Australian Financial Complaints Authority
AFSL	Australian Financial Services Licence
ASIC	Australian Securities and Investments Commission
ASX	ASX Limited ABN 98 008 624 691 or the market operated by it, as the context requires
ASX Clear:	ASX Clearing Pty Limited ABN 48 001 314 503, a wholly owned subsidiary of ASX
ASX Settlement	ASX Settlement Pty Ltd ABN 49 008 504 532
CGT	capital gains tax
CHESS	ASX's Clearing House Electronic Subregister System
Correspondent:	An AFSL holder who has engaged FinClear Services on your behalf to execute and clear transactions on ASX
equity option	an ETO over securities (such as shares issued by an ASX listed company)
ETOs	Exchange Traded Options
FinClear Services, we, us, our	FinClear Services Pty Ltd, ABN 60 136 184 962 AFSL No. 338264
FSG	Financial Services Guide
index option	an ETO over a market index (such as the S&P/ASX 200)
LEPOs	low exercise price options
NGF	National Guarantee Fund
OPIC	Opening Price Index Calculation
PDS	Product Disclosure Statement
TOFA	Taxation of Financial Arrangements
You	The client that has been given this PDS

## 2. Purpose of this PDS

This PDS has been prepared by FinClear Services as the broker who is taken to be the issuer of the ETOs. The information in this PDS does not take into account your personal objectives, financial situation and needs. Before trading in the products referred to in this PDS you should read this PDS and be satisfied that any trading you undertake in relation to those products is appropriate in view of your objectives, financial situation and needs. We recommend that you consult your Correspondent or obtain other independent advice before trading in ETOs. FinClear Services does not provide any financial product advice.

## 3. What products does this PDS cover?

This is a PDS for ETOs which are able to be traded on the financial market operated by ASX. It deals with exchange traded equity options and index options but not LEPOs. Exchange traded equity options are options over quoted securities (or other securities) of a range of different entities listed on ASX. Exchange traded index options are options over a select group of stock exchange indices. A complete list of securities and indices over which ETOs are traded can be found on the ASX website (<http://www.asx.com.au/options>).

## 4. Who is FinClear Services?

FinClear Services is licensed under the Corporations Act (AFSL No 338 264) to provide financial services and is a Trading Participant of ASX, a Participant of Chi-X, a General Participant of ASX Clear and a Settlement Participant of ASX Settlement. FinClear Services is a wholly owned subsidiary of FinClear Holdings Pty Ltd. FinClear Services has authorised the distribution of this PDS. To place an order for ETOs you must contact your Correspondent and place your order with them. Your Correspondent will communicate your order to FinClear Services on your behalf. FinClear Services may then execute your order for you.

## 5. Arrangement with the Correspondent

FinClear Services and the Correspondent have entered into an arrangement under which the Correspondent may arrange for the execution and clearing of transactions in ETOs on your behalf. As a result, both FinClear Services and the Correspondent will be taken under the *Corporations Act 2001* (Cth) to be the issuer of the ETOs acquired on your behalf through this arrangement.

You may not have any direct contact or relationship with FinClear Services in relation to such ETOs (other than under any client agreement relating to ETOs entered into between you and FinClear Services).

Where you acquire an ETOs through this arrangement, there may be additional risks associated with the holding of the ETOs, additional fees and costs may apply, additional rights, terms, conditions and obligations may attach to the ETOs and you will have access to a dispute resolution system maintained by the Correspondent that covers complaints made by the holder of an ETOs. Further information about these matters may be obtained from the Correspondent. Some information is contained in section 6 below and in the Correspondent's FSG.

## 6. The Correspondent

The name, address and other information relating to the Correspondent are contained in the Correspondent's FSG given to you by or on behalf of the Correspondent. The following statement is made on behalf of the Correspondent.

The Correspondent will be taken under the *Corporations Act 2001* (Cth) to be the issuer of the ETOs acquired on your behalf through the arrangement with FinClear Services. The name and contact details of the Correspondent are set out in the Correspondent's FSG.

The fees charged to you by or on behalf of the Correspondent in relation to ETOs are agreed between you and the Correspondent from time to time. Information about those fees is contained in the Correspondent's FSG. More information about those fees may be obtained from the Correspondent. All instructions or other communications by you to FinClear Services in relation to ETOs (including the placing of orders to acquire, exercise or close out an ETO) must be given by you to the Correspondent who will pass on the communication to FinClear Services as your agent. Accordingly, there is the risk that any communication by you may not be passed on to FinClear Services accurately or in a timely manner or at all. Communications by FinClear Services to you in relation to ETOs (including any calls for margin or

collateral) will be communicated by FinClear Services to the Correspondent as your agent and the Correspondent will be responsible for passing on that communication to you. Similarly, there is the risk that any such communication by FinClear Services to you may not be passed on to you by the Correspondent accurately or in a timely manner or at all. Any payments (including margin) and collateral must be provided directly to FinClear Services. If you provide any payment or collateral to the Correspondent and not to FinClear Services (whether on the basis that the Correspondent is to pass on that payment or collateral to FinClear Services in order to satisfy your obligations to FinClear Services or otherwise), there is a risk that the Correspondent will not pass on that payment or collateral to FinClear Services in a timely manner or at all, in which case your obligations to FinClear Services may not be satisfied and FinClear Services may have rights against you. Information about the Correspondent's dispute resolution system and complaint handling arrangements (including information about any applicable external dispute resolution system) is contained in the Correspondent's FSG.

## 7. About exchange traded options

Exchange traded options are a versatile financial product which can allow you to:

- increase the income earned from your portfolio
- protect your portfolio by hedging against fluctuations in your underlying share portfolio
- profit from speculation.

ETOs are flexible because they allow you to both buy and sell ETOs and undertake multiple positions targeting specific movements in the overall market and individual equities. Using ETOs as part of your overall investment strategy can allow you to take advantage of rising, falling and sideways moving markets. However, both the purchase and sale of ETOs involves risks which are discussed below in the section called "Risks of trading in ETOs".

Specific concepts which should be understood before engaging in an ETO strategy are:

- The liquidity of an ETO series, the role of market makers, and the effect this may have on your ability to exit an open ETO position
- How volatility in the market, both up and down, may change the result from an ETO
- How to calculate margins and worst-case scenarios for an ETO position
- The effect time has on any one position or option strategy
- The likelihood of early exercise and the most probable timing of such an event
- The effect of dividends and capital reconstructions on an ETO positions.

When buying an ETO the initial outlay of capital may be small relative to the total contract value so that transactions are "geared" or "leveraged". This means that both profits and losses can be magnified. When selling an ETO the initial income may seem attractive but the liability attached to the ETO can be unlimited. It is advisable to have risk minimisation strategies to mitigate losses when a position does not move as anticipated when selling the ETO. Trading in ETOs should only be done by investors who understand the nature and extent of their rights, obligations and risks associated with trading ETOs.

While this PDS provides information about the characteristics of and benefits and risks associated with ETOs, investors should inform themselves and, if necessary, obtain financial advice from their Correspondent or other financial adviser about the specific risks, characteristics and benefits of the ETO they intend to trade and the relevant ASX rules.

Before trading in ETOs through FinClear Services, you are required to acknowledge that you have received and read the ASX Understanding Options Trading booklet, which can be found at the ASX website. As of 15 February 2019, that booklet can be found at the following link: <https://www.asx.com.au/documents/resources/UnderstandingOptions.pdf>, or can be provided in paper form by contacting the Correspondent.

If you place an order to buy or sell an ETO through FinClear Services, you will be taken to have read and understood this document.

We also recommend that you read the other educational booklets that relate to trading in ETOs provided by ASX which can be found at the ASX website in their brochure section. As of 15 February 2019, ASX educational brochures can be downloaded at the following link: (<http://www.asx.com.au/education/download-brochures.htm>). The educational booklets available here include:

- Index Options
- Options Strategies
- Options - Margin Lending
- Margins
- Taxation treatment of options

ASX also provides other important tools and information relating to trading in ETOs which can be found at the ASX website in their Options page. As of 15 February 2019, the Options page can be found at the following link (<http://www.asx.com.au/products/equity-options.htm>).

FinClear Services suggests that you read and understand all of the information referred to in this section before you trade in ETOs.

## 8. Benefits of trading in ETOs

<b>Speculate</b>	ETOs do not require a rising market to make money. You can potentially profit from rising, falling and flat markets depending on the strategy you have employed. Strategies may be complex and strategies will have different levels of risk associated with each strategy.
<b>Earn Income</b>	Write call options over securities you already own and receive the premium immediately. The risk is that the writer may be exercised against and be required to deliver their securities to the taker at the exercise price.
<b>Manage risk</b>	You can hedge (protect) your portfolio from a drop in value by using put options. Put options can lock in the value of your securities.
<b>Increase gains with leverage</b>	The initial outlay for an ETO is usually much less than where purchasing the underlying securities. This allows you to profit from a change in the price of the underlying securities without having to

	purchase the securities, potentially increasing your profits. Leverage can also multiply your losses if your view of the market proves incorrect.
<b>Gain time to decide</b>	By buying (taking) a call option, the purchase price for the underlying securities is locked in. This gives you time to decide whether or not to exercise the option and buy the underlying securities. The holder has until the expiry date to make his/her decision. Likewise the Buyer (taker) of a put option has time to decide whether or not to sell the underlying securities.
<b>Trade in a regulated market</b>	Unlike some other derivatives, ETOs are standardised and traded through a registered clearing and settlement facility. This gives you the potential benefits of greater certainty of the terms of the relevant option, and the ability to seek to close out a position without having to deal with the other party in the original contract.

## 9. Risks of trading in ETOs

The risk of loss in trading in ETOs can be substantial. Trading in options is suitable for experienced investors who have an appetite for risk and can access cash or securities to meet margin requirements. It is important that you carefully consider whether trading in ETOs is appropriate for you in light of your investment objectives and financial circumstances. Trading in ETOs is not suitable for you if you have a low risk tolerance. You should only trade in ETOs if you understand the nature of the products and the extent of your exposure to risks.

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 Understanding Options Trading booklet, and in particular the section entitled "Risks of options trading". This booklet is available at the link provided in section 7 above. In deciding whether or not you should trade in ETOs, you should be aware of the following matters relating to risk:

<b>Gearing or leverage</b>	While the high level of gearing or leverage that is obtainable in trading in ETOs (due to the low level of initial capital outlay) can multiply your profits when you invest successfully, it can also multiply your losses.
<b>Limited life</b>	ETOs have a limited life span as their value erodes as the option reaches its expiry date. It is therefore important that the ETO you select meets your investment objectives.
<b>Market movement</b>	ETOs are subject to movements in the underlying market. ETOs may fall in price or become worthless at or before expiry.
<b>Difficulty closing positions</b>	When the market moves against you, you may find it difficult or impossible to close an ETO position. Examples of when this may happen are if there is a significant change in the price of the underlying securities over a short period of time, if there is an absence or reduction in the number of willing Buyers (takers) and Sellers (writers) in either the ETO market or the market in the underlying securities, or if the market is suspended or disrupted for any reason.
<b>Unlimited loss for Sellers</b>	When you write an uncovered (or naked) call option, your potential losses are unlimited if the market moves against your open position. Although your potential losses when writing a put option are limited (since the price of the underlying share cannot fall below zero), there is a risk of substantial losses, given that markets tends to fall more sharply than they rise. To ensure you can meet the obligations of writing a call or put option you will be required to pay to FinClear Services margins
<b>Loss of premium for Buyers</b>	The maximum loss in buying (taking) an ETO is the amount of premium paid plus transaction costs. If the option expires worthless, the Buyer (taker) will lose the total value paid for the option (the premium) plus transaction costs.
<b>Loss of margin</b>	Sellers of ETOs could sustain a total loss of margin funds or other cover deposited with FinClear Services where the market moves against the option position. In addition, the Seller (writer) may be obligated to pay additional margin funds or provide other additional cover (which may be substantial) to maintain the option position or upon settlement of the contract.
<b>Capital loss</b>	By trading in ETOs, you are exposed to the risk of losing capital. You should be careful not to risk more capital than you can afford to lose. A good general rule is never to speculate with money which, if lost, would alter your standard of living or otherwise affect your ability to meet your liabilities as they fall due.
<b>Contingent orders difficult</b>	The placing of contingent orders (such as a "stop-loss" order) <sup>1</sup> may not always limit your losses to the amounts that you may want. Market conditions may make it impossible to execute such orders. For example, if the price of the underlying securities moves suddenly, your order may not be filled, or may be filled at a different price to that specified by you, and you may suffer losses as a result.
<b>Trade amendments and cancellations</b>	FinClear Services may pursuant to its terms and conditions amend or cancel your trade. 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.
<b>Trading disputes</b>	There could be a dispute in relation to your ETO transaction. When a trade is subject to a dispute, ASX has powers, in accordance with the ASX Operating Rules, to request that a broker amend or cancel a trade, which will in turn result in the contract with the client being amended or cancelled. In some situations, ASX may also exercise powers to cancel or vary, or direct the cancellation or variation, of transactions.
<b>ASX powers</b>	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 securities are in trading halt if the circumstances are appropriate, restrict exercise, terminate an option position or substitute another underlying security (or securities), 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 an investor's ETO positions.
<b>System outages</b>	Trades effected on ASX are traded on an electronic trading platform and cleared through ASX Clear, which also relies on electronic systems. As with all such electronic platforms and

<sup>1</sup> Is an order that becomes a market order (and hence executed) when the ETOs market reaches the designated price.

systems, they are subject to failure or temporary disruption. If the system fails or is interrupted we 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 of liability imposed by ASX and ASX Clear.
--

## 10. How do ETOs work?

An ETO is a contract between two parties which gives the buyer (the taker) the right, but not the obligation, to buy or sell the securities underlying the ETO at a specified price (exercise price) on or before a predetermined date. To acquire this right, the taker pays a premium to the writer (seller) of the contract.

### (a) American and European style options

ETOs may be American or European style exercise. American style options can be exercised at any time before the expiry day. European options can only be exercised on the expiry day and not before. Most ETOs that are traded on ASX are American style options. ETOs which are index options are normally European style options.

### (b) Paying the premium

The taker will always pay the writer a price (called the **premium**) to enter into the ETO. The writer receives and keeps the premium but has the obligation to buy from or deliver to the taker the underlying securities at the exercise price if the taker exercises the ETO. The amount of the premium is not a standardised feature of an ETO and is established between the taker and writer at the time of the trade. See the discussion on premium below for more information.

### (c) Writers and takers

ETO sellers are referred to as **writers** because they underwrite (or willingly accept) the obligation to deliver or accept the securities covered by an ETO. Similarly, buyers are referred to as **takers** of an ETO as they take up the right to buy or sell a parcel of securities. Every ETO has both a taker and a writer.

### (d) Call options and put options

There are two types of ETOs – call options and put options. Call options give the taker the right, but not the obligation, to buy a standard quantity of underlying securities at a predetermined price on or before a predetermined date. If the taker exercises their right to buy, the seller (writer) is required to sell a standard quantity of securities at the predetermined exercise price. Put options give the taker the right, but not the obligation to sell a standard quantity of underlying securities at a predetermined price on or before a predetermined date. If the taker exercises their right to buy, the seller (writer) is required to buy a standard quantity of securities at the predetermined exercise price. The premium is the price of the ETO agreed to by the buyer and seller through the market.

### (e) Long position and short position

A long (or bought) option position is created by the purchase of a call or put. A short (or sold) position is created by the sale of a call or put. By combining two or more of these basic positions, an investor can create a trading strategy that meets a range of investment objectives, including the protection of an existing portfolio of securities. Information relating to different trading strategies using ETOs is available from the ASX website in the sections highlighted earlier in this PDS.

### (f) Standardised Contracts

ETOs are created by the exchange on which the underlying equity or index is listed. FinClear Services allows you to trade ETOs in relation to entities and indices listed on ASX.

ASX determines the key contract specifications for each series of ETOs listed, including:

- the underlying security or underlying index
- the contract size (where 1 option contract on ASX usually represents 100 underlying securities)
- the exercise price (or **strike price**), which is the specified price at which the taker (buyer) of an equity option can buy or sell the underlying securities. ASX sets the range of exercise prices at specific intervals according to the value of the underlying securities. It is important to note that the exercise price of an equity option may change during the life of an option if the underlying securities are subject to a bonus or rights issue or other form of capital reconstruction. The number of underlying securities may also be subject to an adjustment
- the expiry date. ETOs have a limited pre-determined life span and generally follow one of three cycles, namely:
  - o January/April/July/October;
  - o February/May/August/November; or
  - o March/June/September/December.

ASX may, in accordance with the ASX Operating Rules, make an adjustment to any of the above specifications if the listed entity which is the issuer of the underlying securities to which the ETO relates makes a pro-rata change to its ordinary capital structure (e.g. Bonus issues or special dividends or other special distributions are made). If ASX does make an adjustment it will endeavour to preserve the open positions of takers and writers at the time of the adjustment as best as possible. ASX has issued an Explanatory Note for Option Adjustments which is available on the ASX website. As of 15 February 2019, the Note can be found at the following link:

([https://www.asx.com.au/documents/resources/explanatory\\_note\\_option\\_adjustments.pdf](https://www.asx.com.au/documents/resources/explanatory_note_option_adjustments.pdf)) which provides further information regarding ASX ETO adjustments.

Full details of expiry date information can be found on the ASX website (<http://www.asx.com.au/products/equity-options.htm>) or alternatively through information vendors or newspapers. A list of current ETO codes and delayed price information is available on the ASX website on their options trading information page. As of 15 February 2019, the option trading information page can be found at the following link: (<https://www.asx.com.au/products/equity-options/options-trading-information.htm>). Details of the previous day's trading are published in summary form in the Australian Financial Review and more comprehensively in The Australian. If you cannot access the above information, please contact your Correspondent who may be able to arrange to provide you with the information.

Details of contract specifications for ETOs are published by ASX on its website. The contract specifications detail the key standardised features of ETOs traded on ASX.

### (g) Deliverable settled or cash settled

ETOs are either deliverable or cash settled. Most equity ETOs are deliverable, which requires the physical delivery of the underlying securities when exercised. Index ETOs are cash settled, which means cash settlement is required when they

are exercised. Cash settlement occurs in accordance with the ASX Clear Operating Rules against the OPIC as calculated on the expiry date.

#### **(h) Premium**

The premium (price of the ETO) is not set by ASX. It is negotiated between the buyer and seller of the ETO through the market. The premium for an equity option is quoted on a cents per underlying securities basis so the dollar value payment is calculated by multiplying the premium amount by the number of underlying securities in the contract (usually 100). For example, if you buy a call option with a premium quoted at 20c per share, the total premium will be \$20.00 (i.e. \$0.20 x 100). The premium for an index option is calculated by multiplying the premium by the index multiplier. For example, a premium of 50 points, with an index multiplier of \$10, represents a total premium cost of \$500 per contract. ETO premiums will fluctuate during the ETO's life depending on a range of factors including the exercise price, the price of the underlying securities or the level of the index, the volatility of the underlying securities or the underlying index, the time remaining to expiry date, interest rates, dividends and general risks applicable to markets.

Most ETO pricing involves the use of a mathematical formula which includes calculating the intrinsic and time value of the particular ETO. You should refer to the section entitled "Option pricing fundamentals" in the ASX Booklet "Understanding Option Trading" for more information regarding the pricing ETOs. ASX also provides a pricing calculator on the ASX website (<http://www.asx.com.au/options>).

You can obtain current price information from your Correspondent.

#### **(i) No Dividends or Entitlements**

ETOs do not entitle investors to dividends, distributions or other entitlements paid by the issuer of the underlying securities, unless the investor exercises the ETO in sufficient time to become the holder of the underlying securities at or before the relevant date for dividend or entitlement purposes.

#### **(j) Opening an ETO position**

The establishment of a contract is referred to as opening a position. Once the taker of an ETO has an open position they have three alternatives:

- to exercise the ETO
- to hold the ETO to expiry and allow it to lapse
- to close out their position by writing (selling) an ETO in the same series as originally taken and instructing their broker to "close out" the earlier open position.

The writer of an ETO has two alternatives:

- to let the ETO go to expiry and risk having the ETO exercised against them (if it is not exercised against the writer, it will expire without any further obligation or liability on the writer)
- to close out the ETO by taking (buying) the ETO in the same series as originally taken (provided it has not been already exercised against them).

#### **(k) Closing out of ETO contracts**

An ETO position may be "closed out" by placing an order equal and opposite in effect to your original order – this effectively cancels out the open position. You may want to close out an ETO contract:

- when there is a risk of unwanted early exercise (unless an index option as they can only be exercised on expiry day)
- to take a profit
- to limit a loss.

It is important that you advise your Correspondent if you are seeking to close out an existing position when placing your order. 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. The process of novation is discussed in more detail below in the section entitled "Execution and clearing of ETOs".

#### **(l) Expiry**

ETOs have a limited life span and every option within the same series, which has not already been exercised, will expire on the expiry day. The expiry day is a standard day set by ASX. For equity ETOs the option expires on the Thursday preceding the last Friday in the month, as long as both the Thursday and Friday are business days. Therefore if the last day of the month is a Thursday the option will expire on the Thursday prior. For index options, expiry is usually the third Friday of the contract month. Expiry day information is available on the ASX website (<http://www.asx.com.au/options>).

#### **(m) Exercise**

ETO takers make the decision to exercise the option contract. This means that an equity option writer may be exercised against at any time before expiry. ASX Clear will "randomly" allocate a writer for every exercised taken position. This means that if the taker wants to exercise an ETO and either buy or sell (depending on whether it is a call or a put option) at the predetermined price, then ASX randomly allocates a writer of that ETO and allocates the exercise against them. The writer must then accept the securities at a predetermined price for a call option or sell the securities at the predetermined price for a put option. The taker of an ETO will generally only exercise for a profit and therefore the exercise may result in a loss to the writer of the ETO, depending on their initial costs. Once a writer has been allocated, the writer has lost the opportunity to close out their position and must effect the delivery or cash settlement obligations for the particular equity option contract.

#### **(n) Automatic exercise**

In the event that an ETO is at or in the money, the ETO will be automatically exercised.

For call options, the ETO will be at or in the money when the exercise price is at or below the price of the underlying securities. For put options the ETO will be at or in the money when the exercise price is at or higher than the price of the underlying securities. All unexercised ETOs will expire on the expiry date (unless rolled for a further term).

#### **(o) Settlement**

Payment for, and the delivery of underlying securities, on exercise of an open ETO occurs via the Clearing House Electronic Subregister System (**CHES**) within the settlement time prescribed by ASX. FinClear Services is obliged to make payment to ASX within this timeframe. For cash settled index options, a cash settlement amount calculated having regard to the opening price index calculation on expiry day, is paid to exercising takers on the day following the expiry



date. The level used for settling index options is determined by a special formula. If you intend investing in index options you should take the time to understand these arrangements. For more information on settlement of index options see the ASX Booklet "Understanding Options Trading" section on "Trading index options".

You are required to settle with us within two business days from the time that the trade occurred for all cash positions which arise from premiums, interest, and other cash financial transactions. This requirement is reflected in the terms of our client agreement with you.

#### **(p) Margin Payments**

As ASX Clear contracts with us as principal, where we have an exposure under an ETO contract to ASX Clear, it will call for amounts of money known as "cover" or "margin". Margins are generally a feature of all exchange traded derivative products and are designed to protect ASX Clear against default. A margin is the amount calculated by ASX Clear as necessary to cover the risk of financial loss on an ETO contract due to an adverse market movement.

The total margin called by ASX Clear for ETOs is made up of two components, in each case, determined by ASX Clear:

- Premium margin – this is determined by reference to the market value of the underlying securities at the close of business each day.
- Risk margin – this is the potential change in the price of the option contract assuming a maximum probable inter-day price move in the price of the underlying securities or index.

Amounts of margin are determined daily by ASX Clear, following the close of trading each day. In times of extreme volatility an intraday margin call may be made by ASX Clear.

The margining process used by ASX Clear is explained in detail in the ASX booklet "Margins" which is available in their brochures section on the ASX website (as of 15 February 2019, at the following link:

[https://www.asx.com.au/documents/resources/Understanding\\_Margins.pdf](https://www.asx.com.au/documents/resources/Understanding_Margins.pdf)) and contains examples used to explain how the Clearing House margining system works. That ASX Booklet includes some practical examples as to how margins work and their impact.

We will, under the terms of our client agreement with you, call from you all amounts of margin which ASX Clear calls from us in respect of positions which we have entered into for you. We may also call for greater amounts of margin if we regard this as appropriate.

#### **(q) Collateral**

ASX Clear margin obligations may be met by paying cash or by providing certain types of eligible collateral (e.g. ASX quoted shares or other securities). Securities (held by you) which are acceptable to ASX Clear may be lodged with ASX Clear as collateral for margin obligations relating to ETO positions. When securities are lodged with ASX Clear, they are held as "third party security" in the sense that they represent collateral provided by you to secure our obligations to ASX Clear. The lodged securities cannot be used by us in relation to our dealings or for our other clients in relation to their dealings unless authorised by you.

As a risk management tool, ASX Clear may apply a "haircut" in relation to the value of collateral lodged. For example, if you lodge \$20,000 worth of collateral and ASX Clear applies a 30% haircut, only \$14,000 will be considered as collateral cover for any margin obligations.

The margining process used by ASX Clear is explained in detail in the ASX booklet "Margins" which is available on the ASX website at: <http://www.asx.com.au/education/download-brochures.htm#options>.

You must pay margin to us, or provide alternative collateral which is acceptable to us, by 4pm on the business day following a call for margin.

#### **(r) Strategies**

There are many strategies you can adopt with options, depending on whether you think the underlying securities or the market index is likely to rise, fall or remain steady. These perspectives can be broadly grouped into bullish, bearish or neutral strategies. Options can allow you to construct strategies that enable you to take advantage of many market situations. Some can be quite complex and involve varying levels of risk. Accordingly, you should seek financial advice from your Correspondent or other appropriately licensed and independent adviser about the risks and benefits of options strategies before entering into them. For more information about option strategies, visit the ASX website at (<http://www.asx.com.au/education/download-brochures.htm>). Please note that FinClear Services may, in its absolute discretion, restrict you from engaging in certain options trading strategies.

#### **(s) Index Options**

In the case of index options (i.e. an ETO over a market index such as the S&P/ASX 200), the option contract gives you exposure to a market index rather than a single specific security. Index options offer similar benefits and flexibility to equity options, with the added advantage of offering exposure to a broad range of securities comprising an index rather than being limited to one particular company. You can use index options to trade a view on the market as a whole.

There are some important differences between index options and options over securities:

- Index options are cash settled, rather than deliverable. You will receive a cash payment on exercising an in-the-money index option (i.e. an option with an intrinsic value).
- Index options are European in exercise style. This means there is no risk of early exercise for sellers.
- The strike price and premium of an index option are usually expressed in points.

A multiplier is then applied to give a dollar figure. For example, the multiplier may be \$10 per point, meaning that to buy an index option with a premium of 50 points, you would pay \$500 (plus brokerage and exchange fees).

### **11. Fees and charges for trading in ETOs**

The exact cost of your transaction will be disclosed on your trade confirmation but will consist of the charges disclosed below. There may also be certain amounts that are (or may become) payable in respect of ETOs, which are disclosed below. Some fees that we charge may be tax deductible. You must confirm this with your own Tax Adviser or Accountant, in relation to your specific situation.

#### **(a) Costs – Brokerage, Commission and GST**

The Correspondent (and not FinClear Services) will charge you commission in respect of the execution of your orders in relation to ETOs. The commission or other fees charged to you by or on behalf of the Correspondent in relation to ETOs are agreed between you and the Correspondent from time to time. Information about those fees is contained in the Correspondent's FSG. More information about those fees may be obtained from the Correspondent.

FinClear Services will charge the Correspondent fees for executing and/or clearing transactions. The fees that FinClear Services may charge the Correspondent may be a fixed monthly fee, a fee per trade, a fee per service and/or other fees.

You may also be charged commission or other fees for the transfer of underlying securities following the exercise of an ETO at a rate determined by FinClear Services and advised to you from time to time by the Correspondent. All or part of this fee or commission may be passed on to the Correspondent.

You may be charged fail fees by FinClear Services where you fail to perform your settlement obligations in respect of a transaction that has been executed on your behalf. Fail fees may include a fee imposed by ASX, an administrative fee and a default charge on the amount outstanding from time to time.

The impact of transaction costs on profitability is often greater for options transactions than for transactions in the underlying interests because these costs are often greater in relation to options premiums than in relation to the prices of underlying interests. Transaction costs are especially significant in option strategies calling for multiple purchases and sales of options, such as spreads and straddles. Investors should always discuss transaction costs with their Financial Adviser before engaging in options transactions.

GST will be charged on all brokerage and fees at the prevailing rate (currently 10%). All GST charges will be shown on your Confirmation.

**(b) Costs – ASX Clear Fees**

ASX Clear charges certain fees. As of 15 February 2019, these fees include a transaction fee of \$0.13 per ETO contract, plus GST. If your share option is exercised, ASX Clear charges an exercise fee of \$0.05 per contract, plus GST. In the case of index options, ASX Clear charges a transaction fee of \$0.45 per contract plus GST and \$0.35 plus GST for the exercise fee. ASX Clear fees are payable by you to FinClear Services in addition to our brokerage charges and will be shown on your trade confirmation.

**(c) Amounts Payable – Margins**

FinClear Services will communicate to you all margin amounts required to be paid. This may be through the Correspondent. You are required to pay these margin amounts within 24 hours of being advised of the margin amount by us.

**(d) Amounts Payable – Late Settlement or Margin Payments**

Any interest or charges levied on you due to late settlement and margin payments is due and receivable at the time the amount is levied and must be paid within 1 business day of a demand being made of you by FinClear Services or your Correspondent.

## 12. Other things you need to know

**(a) Execution and clearing of ETOs**

ETOs are traded on the ASX's trading platform and cleared through ASX Clear. As FinClear Services will both execute and clear and settle your ETO transactions, it must comply with the ASIC Market Integrity, ASX Operating Rules and the ASX Clear Rules. ASX Clear is a licensed clearing and settlement facility under the Corporations Act.

Although we may act on your instructions or for your benefit, upon registration of the ETO with ASX Clear in our name as the Clearing Participant, we incur obligations to ASX Clear as principal, even though the ETO may have been entered into on your instructions.

**(b) Client trust accounts**

In order for us to trade an ETO for you, we require you to provide us with money or property to enable us to manage the risks associated with our dealings for you in ETOs. Client money and property paid or given by you in connection with our advising or dealing in ETOs must be held by us in trust in accordance with the Corporations Act and the ASIC Market Integrity Rules. You may also set up your own Cash Management Trust account from which we can withdraw your monies as required in accordance with the Corporations Act.

Money is held on trust for you in a trust account. However, money paid to reimburse us for payments we have had to make to ASX Clear (e.g. margin calls) in respect of dealings for you is not trust money. The Corporations Act provides that money held in the trust account can be used for specific purposes such as meeting margin obligations, guaranteeing, securing, transferring, adjusting or settling dealings in derivatives. FinClear Services may retain the interest (if any) earned on any moneys held for you in its trust account.

**(c) Collateral**

CHESSE securities (held by you) may be lodged in your name with ASX Clear as collateral for margin obligations relating to ETO trades. When CHESSE securities are lodged with ASX Clear, the securities are held by ASX Clear as "third party collateral". The lodged securities cannot be used by us in relation to our dealings or for our other clients in relation to their dealings unless authorised by you as third party collateral. Securities in a client's superannuation fund cannot be used as third party collateral for any other account.

## 13. Significant Taxation Implications

The information below is based on existing tax law and established interpretations as at the date of this PDS.

The taxation information provided below is intended as a summary only and does not cover every aspect of taxation related with the use of ETOs. The information applies to Australian resident investors only. It is important to note that your tax position when trading ETOs will depend on your individual circumstances, in particular whether you are on revenue or capital account. More information in relation to the taxation treatment of options can be found on the ASX website.

FinClear Services does not provide tax advice, and this PDS is not, nor can it be relied upon, as providing tax advice. Accordingly, it is recommended that you seek your own independent professional tax advice.

The main tax implications are:

- Premiums received by the writer of the ETO will either be assessable on a due and receivable basis (on revenue account) or will be a capital gain under the Capital Gains Tax (**CGT**) rules;
- Premiums paid by the buyer of the ETO will either be an allowable deduction on a due and payable basis (on revenue account) or will have implications under CGT rules;
- Any subsequent margin calls should have no tax implications when they are deposited by the writer;
- Interest received on margin accounts is assessable income on a due and receivable basis;
- Where a physically settled ETO on revenue account is exercised, the strike price will either form part of the acquisition tax cost or disposal proceeds for the underlying assets; and
- Where a physically settled ETO on capital account is exercised, the purchase or grant of the ETO and the subsequent exercise is treated as one transaction under the CGT rules. The strike price will either form part of the tax cost base



or consideration received on disposal of the underlying securities. Where the underlying securities have been held for more than 12 months, the seller may be eligible for the CGT discount. Some fees that we charge may be tax deductible. You must confirm this with your own Tax Adviser or Accountant, in relation to your specific situation.

#### **14. Complaints and Dispute Resolution**

FinClear Services is dedicated to providing quality service and as part of our service commitment to clients, it is important to provide an efficient and accessible system for resolving disputes. Should you be of the opinion that the service provided by FinClear Services is not at an acceptable level, you have the right to complain and this complaint will be dealt with as promptly as possible. FinClear Services will aim to resolve any complaint quickly and fairly. If you have a complaint, put your complaint in writing and address it to:

Head of Compliance

Email: [compliance@finclearservices.com.au](mailto:compliance@finclearservices.com.au)

Post: GPO Box 5343, Sydney NSW 2001

Ph: (02) 8999 4000

You should try to include as much detail about the circumstances of the complaint as possible including the names of any FinClear Services employees involved and include any supporting documentation.

Following receipt of your complaint, FinClear Services' Head of Compliance will acknowledge receipt of your complaint in writing and provide you with an estimate of the time it will take to investigate the issues you have raised. A full investigation will be undertaken which will include reviewing all the supporting documentation, speaking to you and interviewing relevant FinClear Services employees. You will be provided with a detailed written response once the investigation of the complaint has been finalised.

If we do not resolve the complaint to your satisfaction, you have the option of pursuing your complaint with the Australian Financial Services Authority (**AFCA**). AFCA's contact details are: GPO Box 3 Melbourne, Vic 3001 | Telephone: 1800 931 678 | Email: [info@afca.org.au](mailto:info@afca.org.au)  
Web: [www.afca.org.au](http://www.afca.org.au)

Alternatively you may also be able to pursue the matter with ASX or ASIC. ASX has offices in all capital cities and their details are available on [www.asx.com.au](http://www.asx.com.au). ASIC also has a free call information line (1300 300 630) that you may use to make a complaint and obtain information about your rights.

If your complaint relates to a service provided to you by the Correspondent (rather than FinClear Services), you should seek to have your complaint dealt with in the manner advised by the Correspondent in its FSG or otherwise.

#### **15. Compensation Arrangements**

FinClear Services has arranged for Professional Indemnity insurance cover which it considers to be adequate, having regard to the following:

- FinClear Services' maximum liability under the Australian Financial Complaints Authority Service of which FinClear Services is a member;