

## Target Market Determination (TMD) for Exchange Traded Options

**Date:** 5 October 2021

**Issuer:** FinClear Services Pty Ltd ABN 60 136 184 962 AFSL 338264

**Background:**

FinClear Services Pty Ltd (**FinClear**) is a third-party provider of execution, clearing and settlement services to financial intermediaries (**Financial Intermediaries**). It issues exchange traded options (**ETOs**) to retail clients via its Intermediaries. All transactions executed by FinClear are done in accordance with instructions provided by the Intermediaries. FinClear does not communicate with the end client nor does it provide any financial advice to the Financial Intermediary or the end client.

In compliance with our product design and distribution obligations (**DDO**) under Part 7.8A of the Corporations Act 2001 (Cth), we provide this target market determination (**TMD**) relating to the issue of ETOs and it is available to the public free of charge. It does not take into any particular person's objectives, financial situation or needs. Before deciding to invest in ETOs, you should consult with your financial adviser to determine whether ETOs is appropriate for your personal investment objectives, financial situation and particular needs. You should also refer to our PDS available at [www.finclear.com.au](http://www.finclear.com.au).

### DDO Requirement Application to ETOs

#### Class of retail clients that comprise the target market for this product – s 994B(5)(b)

<p><b>Description of ETOs (including its key attributes)</b></p>	<p>ETOs have the following key attributes:</p> <ul style="list-style-type: none"> <li>- ETOs are a type of derivative giving the buyer (the taker) the right, but not the obligation, to buy or sell the underlying product at a specified price on or before a specified date. On the opposite side, the seller (option writer), has the obligation to perform the contract, that is, either buy or sell the underlying product at the behest of the taker.</li> <li>- The terms and specifications of ETOs (other than the premium) are determined by the relevant exchange.</li> <li>- ETOs have a limited life span and their value erodes the closer it reaches its expiry date.</li> <li>- The underlying product can be an individual financial product such as a quoted share or other financial product or an index.</li> <li>- The value of ETOs will fluctuate depending on a range of factors, including the price, volatility, remaining time to expiry date, interest rates, dividends, exchange rates and general risks applicable to markets.</li> </ul> <p>There are a number of reasons why a retail client may trade an ETO:</p> <ul style="list-style-type: none"> <li>- to reduce risk by hedging against another exposure (ie/ buying an ETO over shares that the client already holds) or to lock in a price to purchase or sell the underlying financial products;</li> <li>- to earn increased income by obtaining premium from selling options;</li> <li>- to seek to make profits from speculative transactions.</li> </ul> <p>There are a number of significant risks in trading in ETOs including:</p> <ul style="list-style-type: none"> <li>- ETOs have a limited life span as their value erodes as the Option reaches its expiry date and they are worth nothing if they expire and are unexercised;</li> <li>- ETOs are subject to movements in the underlying market and may fall in price or become worthless at or before expiry;</li> <li>- As ETOs are a leveraged financial product they can maximise gains but the level of leverage that is obtainable in trading ETO's can also magnify losses if the market moves against the client;</li> <li>- Buyers of ETOs may lose their entire premium (ie/ the entire upfront amount invested) plus transactions costs if the ETO is not in the money at the time of exercise, or not sold prior to expiry;</li> </ul>
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	<ul style="list-style-type: none"> <li>- Sellers of ETOs are exposed to potential margin calls, which may require cash or other assets to be lodged at short notice;</li> <li>- Sellers of uncovered ETOs are at potential increased risk whereby sellers of uncovered Put options are at risk of material losses and sellers of uncovered Call options are at risk of unlimited losses if the market moves against them.</li> </ul>
<b>Target Market for ETOS (s.994B(5))</b>	<p>Due to the number of reasons why a retail client may trade ETOs and the significant risks in relation to trading in ETOs, FinClear considers that the target market for ETOs is a retail client that falls into at least one of the following categories:</p> <ul style="list-style-type: none"> <li>(a) <b>High Risk Tolerant Clients</b> – clients who have a higher risk appetite that can withstand losses without material financial hardship, relatively high and stable income, substantial spare capital, able to withstand material losses and seeking to make a profit trading ETOs;</li> <li>(b) <b>Risk Mitigation Clients</b> – clients who are seeking to hedge potential risk from existing or future investments or exposures, or to lock in a price to purchase or selling underlying financial products;</li> <li>(c) <b>Premium Generation Clients</b> – clients are seeking to earn income by selling options that are covered by underlying financial products;</li> </ul> <p>collectively referred to as Target Market.</p>
<b>Likely Profile of the retail client in the Target Market</b>	<p>The objectives, financial situation and needs (<b>Profile</b>) for each type of Client is as follows:</p> <ul style="list-style-type: none"> <li>(a) <b>High Risk Tolerance Clients</b> are retail clients likely to have a higher risk appetite and who are seeking higher returns through riskier strategies and are prepared to suffer material losses (and able to withstand such losses).</li> </ul> <p>Likely objectives: a High Risk Tolerant Client will typically use existing assets to support leverage in order to seek higher returns with corresponding higher risk.</p> <p>Likely financial situation: will have a relatively high and regular income and/or substantial holdings of capital available for investment. Are able to withstand losses from trading without causing distress or material impact on living standards. Have available liquid assets to fund potential margin calls. Have a good understanding of ETOs and trading strategies.</p> <p>Likely needs: Wish to use spare capital to make enhanced returns</p> <ul style="list-style-type: none"> <li>(b) <b>Risk Mitigation Clients</b> are clients who are likely to be relatively risk averse and are looking to protect previous gains, lock in purchase or sale prices, or mitigate against potential future losses.</li> </ul> <p>Likely objectives: Protect previous gains or mitigate against potential future losses and/or lower the cost of acquiring underlying assets.</p> <p>Likely financial situation: Have existing investments or exposures which the retail client wishes to hedge.</p> <p>Likely needs: Loss or profit protection.</p> <ul style="list-style-type: none"> <li>(c) <b>Premium Generation Clients</b> are likely to be clients with a moderate risk appetite who are looking to increase their yield but are prepared to have the options exercised against them.</li> </ul> <p>Likely objectives: Increase their income return.</p> <p>Likely financial situation: Hold existing positions in underlying stocks. Require a regular income. Are able to address capital gains tax position if ETOs sold by the retail client are exercised against them.</p>

	<p>Likely needs: Increase income return.</p> <p>And across all three categories, these clients in the Target Market will have sufficient experience and understanding of ETOs.</p>
<p><b>Different ETO Strategies and explanation of why ETOs are likely to be consistent with the Target Market client's Profile</b></p>	<p>FinClear Services has categorised various ETO strategies as follows:</p> <ul style="list-style-type: none"> <li>- <b>Level 1:</b> Buying Call option and Put options</li> <li>- <b>Level 2:</b> Selling Covered Call options</li> <li>- <b>Level 3:</b> Selling uncovered Call and Put options in isolation or as part of a sophisticated options strategy</li> <li>- <b>Level 4:</b> LEPOs, and entering into spreads and various defined multi-leg strategies</li> </ul> <p>We expect that:</p> <p>(a) <b>High Risk Tolerance Clients</b> may engage in <b>Level 1, 2, 3 and 4</b> with all the above strategies consistent with their likely objectives, financial situation and needs. In particular Level 3 and 4 strategies allows the potential for enhanced returns and this type of client has the financial means and ability to bear any potential losses without material hardship</p> <p>(b) <b>Risk Mitigation Clients</b> will most likely only engage in <b>Level 1 or 2</b> strategies as these ETOs offer the ability to financially protect or lock in any previous profits or forthcoming profits from exposure to any underlying financial product. As an example, a client buying a Put option over an underlying equity product, can attempt to make a profit from any downward trend to offset any losses that the client may incur from their existing long exposure in the equity product.</p> <p>(c) <b>Premium Generation Clients</b> are expected to enter into <b>Level 2</b> strategies because this type of ETO strategy offers the potential for increased income and this class of client should be able to bear any consequences of their ETOs being exercised against without significant financial hardship.</p> <p>FinClear also considers that the target market for ETOs includes any retail client whose open ETO position is being closed out (whether on the instruction of the client, Financial Intermediary, exercise rights by FinClear or action by ASX) even if the client would not otherwise fall within a category of our Target Market.</p>
<p><b>Retail Clients that are not suited for ETOs</b></p>	<p>FinClear considers any retail client that don't have the same profile as its Target Market would not be suited for ETOs. We expect that these clients would not have adequate understanding of the risk of ETOs and who cannot bear the consequences of potential losses without significant financial impact.</p>
<p><b>Conditions and Restrictions on Distribution: s994B(5)(c)</b></p>	
<p><b>How FinClear distributes its ETOs</b></p>	<p>FinClear distributes its ETOs via its Financial Intermediaries who all hold an Australian Financial Services Licence (<b>AFSL</b>) or who are otherwise authorised to provide financial services advice or authorised to deal in financial products and able to determine the appropriateness of various ETOs for its clients.</p>
<p><b>Distribution Conditions and Restrictions</b></p>	<p>All Financial Intermediaries that wish to distribute ETOs to its clients must ensure that their clients fall within the Target Market as specified by FinClear in this TMD. New Financial Intermediaries will be required to sign Execution and Clearing Agreement (<b>Agreement</b>) with this specified as a term in the Agreement. Existing Financial Intermediaries will be required to acknowledge and agree to these new conditions (<b>DDO Conditions</b>) placed upon them if they wish to continue placing ETO orders with FinClear.</p>

	<p>For Financial Intermediaries who are not authorised to provide financial advice or who do not provide advice, they must consider on reasonable grounds that relevant retail client is likely to be within the Target Market. Alternatively, the Financial Intermediary can arrange for the retail client to complete a self-certification to confirm that they fall within the Target Market as set out in this TMD.</p> <p>FinClear will seek annual attestations from its Financial Intermediaries to ensure that it is complying with its obligation to only distribute ETOs traded via FinClear to persons that fall within the Target Market.</p>
<p><b>Explanation of why these distribution conditions will make it more likely that the clients who acquire the ETOs are in the Target Market</b></p>	<p>FinClear only distributes ETOs to third parties who hold AFSLs or who are otherwise authorised to provide financial services by an AFSL Holder who themselves are required under their AFSL to act in the clients' best interest and to provide financial advice that is appropriate for the client's personal financial situation. In addition, Financial Intermediaries are required to agree to FinClear DDO Conditions and will be required to provide FinClear with an annual attestation. With these conditions in place, FinClear considers it highly likely that only retail clients that are within the Target Market will provide instructions to FinClear (via their Financial Intermediary) to trade in an ETO.</p>
<p><b>Reviews: s.994B(5) (d)(e)(f)</b></p>	
<p><b>Review Triggers</b></p>	<p>The triggers that may suggest that this TMD is no longer appropriate and which should trigger a review of the TM include:</p> <ul style="list-style-type: none"> <li>- a large number of complaints from end clients (either to the Financial Intermediary or FinClear) indicating that the risks of ETOs are not well understood;</li> <li>- FinClear becomes aware that there is a significant distribution of ETOs clients outside the Target Market;</li> <li>- Feedback received directly from Financial Intermediaries indicating that the Target Market is not appropriate;</li> <li>- Material changes to regulations governing ETOs;</li> <li>- Significant changes to the type of ETOs available on the relevant exchange collectively referred to as Review Triggers.</li> </ul>
<p><b>Review Periods</b></p>	<p>FinClear's TMD will be reviewed at least annually and more frequently if a Review Trigger occurs.</p>
<p><b>Information from Distributors: s 994B(5)(g)(h)</b></p>	
<p><b>Distributor Reporting Requirements</b></p>	<p>FinClear will require the following information from any of its Financial Intermediaries who distribute ETOs (ie/ places an ETO order with FinClear)</p> <p>(a) <b>Complaints</b> – on a quarterly basis, the number and nature of complaints in relation to ETOs</p> <p>(b) <b>Dealings outside of the Target Market</b> – as soon as practicable and no later than 10 business days after becoming aware, of any significant dealings of ETOs outside of the Target Market and details on the nature of the dealing.</p>