Exchange Traded Options
Product Disclosure Statement (PDS)

Last updated 01 August 2025

Openmarkets Australia Limited
(ABN 38 090 472 012, AFSL 246705) is a Market Participant of
ASX, Cboe Australia and NSX, and an ASX Clear and Settlement Participant.

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Part 1: ETOs

1. General introduction

1.1 Important information

This Product Disclosure Statement (**PDS**) for Exchange Traded Options (**ETOs**) comprises this **Part 1** document and another **Part 2** document entitled **Our Fees and Charges**.

This PDS is dated 01 August 2025.

The information in this PDS does not take into account your personal objectives, financial situation and needs. Before trading in ETOs you should read this PDS and be satisfied that any trading you undertake in relation to these products is appropriate in view of your objectives, financial situation and needs.

We recommend that you consult your financial adviser or obtain other independent advice before trading in ETOs.

The agreement (**Agreement**) is made between Openmarkets Australia Ltd (AFSL No. 246705 and ABN 38 090 472 012) (**Openmarkets**, **we**, **our or us**) and the client. This Agreement pertains to those clients who open a trading account with Openmarkets. Your obligations in relation to settlement are set out in the **Openmarkets Client Agreement**.

Changes to information

Information in this PDS is subject to change from time to time. To the extent that the change is not materially adverse to you, we may update it by posting a notice of the change on our website.

We may provide an updated copy of this PDS to you by making it available on our website. The version of the PDS published on our website at the time of entering into a trade governs the ETO. If you received this document electronically or if you received any updated or new information other than in writing, we will provide a paper copy free on request.

A paper copy of any updated information is also available without charge on request. We may also issue a supplementary PDS with new information. This PDS (and any supplementary PDS) is available in paper form and in electronic form from our website at **openmarkets.com.au**.

1.2 Purpose of this PDS

This PDS has been prepared by Openmarkets. Under the *Corporations Act 2001* (Cth) (**Corporations Act**), where Openmarkets enters into an ETO on a client's behalf, Openmarkets is regarded as issuing the option to the client.

This PDS is designed to assist you in deciding whether ETOs are appropriate for your needs and to assist you in comparing it with other financial products you may be considering.

This PDS is an important document and we recommend you contact us should you have any questions.

Our contact details are set out in Section 2.

1.3 PDS in two parts

This PDS is in two parts. The first part of the PDS contains all information other than the Schedule of Fees. The second part of the PDS contains the Schedule of Fees.

You should read both parts of the PDS before deciding to trade in ETOs and you should retain the PDS for future reference.

1.4 What products does this PDS cover

This PDS relates to ETOs traded on the market operated by the Australian Securities Exchange Limited (**ASX**) and settled and cleared by ASX Clear Pty Ltd (**ASX Clear**) by Openmarkets, including:

- options over shares or interests in managed investment schemes quoted on ASX (these are referred to in this PDS as **equity options**);
- options over an index such as the S&P™/ASX 200™ Index or the S&P™/ASX 200™ Property Trust Index (these are referred to in this PDS as **index options**); and
- call options with an exercise price of one cent per underlying share (these are referred to in this PDS as **LEPOs**).

In this PDS, equity options, index options and LEPOs are collectively referred to as ETOs or options.

Note that ASX makes available for trading options over various financial products, including shares in companies and interests in managed investment schemes. For ease of reference in some places in this PDS we will refer to "**underlying securities**" however investors should be aware that the underlying financial product may be another kind of financial product.

2. Who is the issuer of this PDS?

Openmarkets is the issuer of ETOs under this PDS. Openmarkets is a Trading Participant of ASX and a Clearing Participant of ASX Clear. It is also a Participant of ASX Settlement Pty Limited (**ASX Settlement**), which is the settlement facility for ASX and Cboe Australia transactions.

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3. What are ETOs?

3.1 Types of ETOs

An option is either the right to buy an asset (call option), or the right to sell an asset (put option), for an agreed price on or before a specified future date.

The buyer is under no obligation to exercise the right conferred by the option. On the other hand, the seller of the option has an obligation to fulfil the requirements of the contract if called upon by the buyer of the option to do so. For this obligation, the seller of the option receives consideration, referred to as the premium.

There are three types of ETOs able to be traded on the market operated by ASX, being equity options, index options and LEPOs. These are briefly discussed below.

Please note that some of the concepts referred to in this PDS, such as contract size, exercise style, exercise price and expiry date are discussed in more detail in Section 4.

Equity options

Equity options are options over financial products quoted on ASX, for example shares of listed entities. These options are known as 'deliverable' in that one party must take 'delivery' of the underlying financial product.

Index options

Index options are options over an index such as the S&P™/ASX 200™ Index or the S&P™/ASX 200™ Property Trust Index. These options are 'cash settled' in that 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 Index Price 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.

Further information on index options can be found in the Introduction to Index Futures and Options booklet and ASX Index Options fact sheet available at **asx.com.au**.

The table below summarises the main differences between equity options and index options:

Date	Equity options	Index options
Exercise style	Generally American	European
Settlement	Deliverable	Cash settled
Last trading and expiry day	The third Thursday of the month; weekly options generally expire every Thursday. The ASX publishes an expiry calendar, the latest of which is **available online here**.	12pm on the third Thursday of the contract month. Weekly index options expire on Thursdays at 12pm. Index options are settled against the Opening Index Price Calculation (OPIC) as calculated on expiry day.
Underlying asset	ASX approved securities	ASX approved indices
Premium	Expressed in dollars and cents	Expressed in points
Exercise price	Expressed in dollars and cents	Expressed in points
Contract size	100 shares	The exercise price of the option is multiplied by $ value

Low Exercise Price Options (LEPOs)

A share is an option with an exercise price of 1 cent per share.

The taker of the LEPO has the right to buy an agreed number of shares (typically 100 shares per contract), at a specified future date, in return for the payment of the exercise price (1 cent) and a premium.

The seller of a LEPO has the obligation to sell the underlying securities at expiry in return for the exercise price and the premium the LEPO originally traded at. A LEPO provides exposure that economically is similar to a futures contract. Effectively a LEPO is the forward sale or purchase of the underlying securities.

Because the exercise price of a LEPO is so low, the price of the LEPO is very close to that of the underlying securities, and moves one-for-one with changes in the share price.

LEPOs are a more sophisticated style of option which may suit investors with broader risk profiles.

3.2 Uses of ETOs

ETOs are a versatile financial product which can allow investors to:

- hedge against fluctuations in their underlying share portfolio;
- increase the income earned from their portfolio (through the earning of premium income);
- increase returns from leverage; and
- diversify their portfolio, and profit from market movements.

Their flexibility stems from the ability to both buy (take) and sell (write) an ETO and undertake multiple positions targeting specific movements in the overall market and individual underlying financial products.

Index options can be used to take a view on the market as a whole, or on the sector of the market that is covered by the 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 more detail in Section 7.

3.3 Understanding basic concepts

Concepts which should be understood before trading ETOs include:

- **Time decay**: the effect time has on a position/strategy;
- **Volatility outlook**: how volatility changes, both up and down, may affect the price or value of an ETO and the potential outcome;
- **Margin**: how to calculate margins and worst-case scenarios for any position;
- **Early exercise**: the likelihood of early exercise and the most probable timing of such an event, including the effect of dividends and capital reconstructions on an options position; and
- **Liquidity**: liquidity of an ETO, the role of market makers, and the effect this may have on your ability to enter and exit a position.

3.4 Additional materials: educational booklets

The ASX options market has been operating since 1976 and became popular after the deregulation of the financial markets. ASX provides a number of educational booklets and brochures relating to options. Their current booklets are available free of charge to you via their website **asx.com.au**, as set out below. This PDS refers to a number of ASX booklets, including (without limitation):

- **Understanding Options Trading** – this booklet discusses the features and contract specifications of ETOs, risks and advantages in trading options and gives examples of how ETOs work and basic option trading strategies: **asx.com.au/documents/resources/UnderstandingOptions.pdf**
- **Understanding Options Strategies** – this booklet describes in more detail how ETOs may be used in various trading strategies: **asx.com.au/documents/resources/UnderstandingStrategies.pdf**
- **Margins** – this booklet explains what margins are, how they are calculated by ASX Clear and how Openmarkets may meet its margin obligations to ASX Clear: **asx.com.au/documents/resources/Understanding_Margins.pdf**
- **LEPOs Low Exercise Price Options Explanatory Booklet** – this booklet explains further the features of LEPOs: **asx.com.au/documents/resources/UnderstandingLEPOs.pdf**

- Clever products for clever investors – this poster provides diagrams of various trading strategies: **asx.com.au/documents/products/options_strategies_poster.pdf**
- **Introduction to Index Futures and Options** – this booklet explains what index options are and gives examples of different trading strategies for Index options: **asx.com.au/documents/resources/intro_to_index_futures_and_options.pdf**
- **ASX Index Options** – this factsheet provides further information on the risks and advantages of trading index options: **asx.com.au/documents/resources/index_options.pdf**

Please note that the above links are provided as at the date of this PDS and may be subject to change by ASX from time to time. If you cannot access the ASX booklets via the ASX website, you should contact the ASX.

4. Basic features of ETOs

4.1 Overview

The ease of trading in and out of options on the ASX options market is assisted by the standardisation of the following option contract components:

1. Underlying financial product;
2. Contract size;
3. Expiry date; and
4. Exercise prices.

There is a fifth component, the option premium, which is not standardised but rather determined by market forces. ASX operates the options market, while ASX Clear operates the clearing facility for ASX's options market.

Among ASX's responsibilities is the setting of the standardised option components.

The following items covered in this Section are not intended to be a detailed explanation of the features of the ETOs, but rather to identify some of the key features of ETOs. For a more detailed description, you should refer to the ASX explanatory booklets referred to in the previous Section.

4.2 Standardised contracts

The terms and specifications of ASX's ETOs (other than the premium, which is negotiated between the buyer and seller) are determined by ASX in accordance with the ASX Settlement Operating Rules (**ASX Settlement Rules**).

Details of contract specifications for ETOs are published by the ASX on their website at **asx.com.au**. The contract specifications detail the key standardised features of ETOs traded on ASX.

ASX determines the key contract specifications for each series of ETOs.

For example, in the context of equity options, ASX sets the following:

- the underlying financial product;
- whether the ETO is a call option or a put option;
- the contract size (that is, the number of units of the underlying financial product to which the option relates) – when an exchange traded equity option series is first opened by ASX for trading, the contract size is usually 100 (for example, 100 BHP shares);
- exercise style – that is American style or European style. Most equity options are American style;
- exercise price (or strike price) – is the specified price at which the taker (buyer) of an equity option can, if they exercise the option, buy or sell the underlying financial products;
- expiry date – ETOs have a limited predetermined life span and generally follow one of the four cycles, namely:
    - Monthly ETO expiries are typically based on the financial quarters (e.g. March/June/September/December).
    - Weekly ETO expiries are usually on Thursdays unless ASX Clear determines another day.

Similarly, for index options, the relevant parameters will also be set by ASX, including the underlying index, the index multiplier, the exercise style (European only), the exercise level of the option and the expiry date.

You can find a useful expiry calendar on the ASX website: **www.asx.com.au/options** under "Expiry calendar".

4.3 Writers (sellers) and takers (buyers)

Every ETO has both a writer (seller) and a taker (buyer).

The writer is a seller of an option contract as they agree to perform the obligations that are required to be performed on exercise of that option (e.g. buy or sell the underlying securities at the exercise price).

The taker is the buyer of an option contract as they acquire the right to exercise the option (e.g. the right to exercise the option to buy or sell the underlying securities at the exercise price, in the case of an equity option).

4.4 Call options and put options

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

Equity options

Call options give the buyer (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

buyer exercises their right to buy, the seller (writer) to which the exercise notice is allocated is required to sell the standard quantity of shares at the predetermined exercise price.

Put options give the buyer (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 buyer (taker) exercises their right to sell, the seller (writer) to which the exercise notice is assigned by ASX Clear is required to buy the standard quantity of shares at the predetermined exercise price.

Index options

Index options are cash settled only.

Call options give the buyer (taker) the right, but not the obligation to exercise the option. If the closing level of the index exceeds the exercise level of the index option, the buyer (taker) will, on exercise of the option, have the right to receive an amount of money, which is determined by multiplying the difference between the closing level and the exercise level by the index multiplier specified by ASX. If the buyer (taker) exercises the option, the seller (writer) to which the exercise notice is assigned by ASX Clear is required to pay the corresponding amount.

Put options give the buyer (taker) the right, but not the obligation to exercise the option. If the closing level of the index is less than the exercise level of the index option, the buyer (taker) will, on exercise of the option, have the right to receive an amount of money which is determined by multiplying the difference between the closing level and the exercise level by the index multiplier specified by ASX. If the buyer (taker) exercises the option, the seller (writer) to which the exercise notice is assigned by ASX Clear is required to pay the corresponding amount.

4.5 Exercise style – American or European

ETOs may be American or European style exercise. 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 ASX exchange traded equity options are American style options. ASX exchange traded index options are European style options. LEPOs are European style options.

4.6 Premium

As noted above, the only term of an option contract an investor trades on ASX which is not set and predetermined by ASX is the price of the contract. The price, known as the ‘premium’, 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 financial product basis so the dollar value payment is calculated by multiplying the premium amount by the number of underlying financial products (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 a CBA call

option with a premium quoted at $2.52 per share and the contract size is 100, the total premium is $252.50.00 (being $2.52 x 100).

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, an AXJO Index call with a premium of 51 points, has an index multiplier of $10.00, and represents a total premium cost of $510.00 per contract.

The value of an option will fluctuate during the option's life depending on a range of factors including the exercise price or level, the price of the underlying financial product or the level of the underlying index, the volatility of the underlying financial product or the underlying index, the time remaining to expiry date, interest rates, dividends and general risks applicable to markets.

Most option pricing involves the use of a mathematical formula which includes calculating the intrinsic and time value of the particular option. You should refer to the section entitled 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 the ASX website at **asx.com.au**.

4.7 Adjustments

The ASX may (in accordance with the ASX Settlement Rules) make an adjustment to any of the specifications of an option to reflect corporate actions in respect of the underlying financial products, for example if the issuer of the underlying financial products undertakes a bonus issue, rights issue, special dividend, capital reduction or other similar action. If ASX does make an adjustment it will endeavour to do so in a way which puts the writer and taker 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 takers and writers at the time of the adjustment. 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.

When ASX makes an adjustment to the terms of an option series, ASX Clear will make a corresponding adjustment to the terms of contracts which are already open.

ASX has issued an Explanatory Note for Option Adjustments which can be found at **asx.com.au** which provides further information regarding ASX option adjustments.

4.8 No dividends or entitlements

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 securities. Of course, the seller (writer) of a call option or the buyer (taker) of a put option who holds the underlying securities will have an entitlement to dividends, franking credits and other entitlements, but these are entitlements of the holders of the shares, not through the option contract.

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 ex-entitlement date. The resulting sale and purchase of underlying securities on the exercise of an equity option will settle on the third business day following the exercise of the option (see the discussion below at Section 4.13).

4.9 Expiry and Time Value

ETOs have a limited life span. Every option within the same series has the same expiry day. The expiry day is a standard day set by the ASX. For equity options with a monthly expiry, the option expires on the Thursday preceding the last Friday in the relevant 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 on the Thursday prior. Index options and index LEPOs expire on the third Thursday of the relevant month, provided that day is a business day. ASX Clear has the right to change these expiry dates should the need arise. Expiry day information is available on the ASX website at **asx.com.au**.

As time draws closer to the expiry of an option and the opportunities for the option to become profitable decline, the time value declines. This erosion of option value is called time decay. Time value does not decay at a constant rate but becomes more rapid towards expiry. For more information about time value see page 9 of the Understanding Options Trading booklet available at **asx.com.au**.

4.10 Exercise by the taker and assignment to the writer

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

4.11 Automatic exercise

We will automatically exercise your open in the money ETO positions on the expiry date. All unexercised ETO contracts will expire on the expiry date.

4.12 Deliverable or cash settled

ETOs are either deliverable (i.e. equity options) or cash settled (i.e. index options).

Options are described as deliverable where the obligations of the buyer (taker) and seller (writer) are settled by the 'delivery' of the underlying financial product. Equity options are deliverable, because on exercise one party is required to transfer the underlying financial products to the other at the exercise price. Equity options cannot be comprised of shares that have been short sold.

Options are described as cash settled where the obligations of the buyer and seller are settled by the buyer and seller settling their obligations by the payment and receipt of a cash amount. Index options are cash settled.

4.13 Settlement following exercise of an ETO

When an equity option is exercised by a taker, and the exercise is assigned by ASX Clear to an open position of a writer, a contract for the sale and purchase of the underlying financial products at the exercise price will arise between the writer and the taker. The parties to this transaction must then settle that transaction in the same way as any other ASX transaction.

Payment for, and the delivery of, underlying financial products occurs via ASX Clear Electronic Sub-register System (**CHESS**) on T+2. CHESS is operated by ASX Settlement, the settlement facility for ASX transactions and settlement will occur in accordance with the ASX Settlement Rules.

Your obligations in relation to settlement are set out in the **Openmarkets Client Agreement**.

Index options are cash settled. When an index option is exercised by a taker, and the exercise is assigned by ASX Clear to an open position of a writer, the writer 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 available at **asx.com.au**.

4.14 Time for payments to Openmarkets

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. Please see the discussion on margins in Section 5.2.

4.15 Cooling-off period

There are no cooling-off arrangements for ETOs.

4.16 Option contracts which are available for trading

Full details of all ETOs quoted on ASX and expiry date information can be found on the ASX website at **asx.com.au** or alternatively through information vendors or newspapers. A list of current option codes and delayed price information is available on the ASX website at **asx.com.au**.

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 us and we will arrange to provide you with the information.

4.17 Opening an ETO position

Unlike shares, ETOs are not instruments which a person buys or sells in the ordinary sense. ASX sets the terms of the 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.

If you have opened a position as the buyer of an ETO, you have three alternatives:

- you can exercise the option;
- you can hold the option to expiry and allow it to lapse; or
- you can close out the position by selling an option in the same series and instructing us to 'close out' the open position.

Similarly, if you have opened a position as the seller of an ETO, you have two alternatives:

- you can let the option go to expiry and risk being exercised against (if it is not exercised against, it will expire without any further obligation or liability on the seller); or
- you can close out the option by buying an option in the same series (provided it has not been exercised against).

4.18 Closing out an ETO position

An ETO may be 'closed out' by entering into an option in the same series, but in the 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 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 $1.00 per option, and the same option series may now be able to be sold for a premium of $1.20, because the price of the underlying financial products 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 financial product.
- The investor may want to limit a loss. For example, the buyer of a call option may have paid a premium of $1.00 per option, and the same option series may now be able to be sold for only $0.80, because the price of the underlying financial products 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 underlying financial product.

It is important that you advise us if you are seeking to 'close out' an existing position when placing your order.

4.19 LEPOs – distinguishing features

LEPOs (over equities) are essentially equity options with an exercise price of one cent per underlying share. A LEPO provides exposure that economically is similar to a futures contract. Effectively a LEPO is the forward sale or purchase of the underlying shares.

LEPOs are European-style options; in other words, they can only be exercised on the last trading day before they expire. The buyer (taker) of a LEPO has the right to buy an agreed number of shares (for example, 100 shares per LEPO contract) at a specified future date, in return for the payment of the exercise price (one cent per share). The seller (writer) of a LEPO undertakes to sell the underlying securities 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 securities if the buyer exercises the option.

When you enter into a LEPO, you do not pay (or receive) the full amount of the premium upfront. Instead, you pay or receive margins during the life of the LEPO and pay or receive the balance of the premium if and when you exercise the LEPO.

LEPOs are different from standard ETOs in a number of respects, summarised below:

- LEPOs are only available as call options;
- 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;
- LEPOs have a very low exercise price and a much higher premium – close to the initial value of the underlying securities the subject of the LEPO;
- LEPOs have only one exercise price per expiry month, unlike other options, which offer a range of exercise prices;
- 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 small percentage of the value of the underlying securities.

In standard equity options, the buyer pays the premium upfront and the seller receives the premium up-front; and both the buyer and seller of a LEPO are subject to ongoing margining.

In summary, because the exercise price of a LEPO is so low, the price of the LEPO is very close to that of the underlying shares, and moves one-for-one with changes in the share price.

Because of their low exercise price, LEPOs trade for large premiums. The high premium exposure carries a risk similar to that of owning the securities outright or, for sellers, short selling securities. Although the exposure with LEPOs is similar to owning the shares you are not entitled to dividends or other rights attached to the shares, such as voting rights.

4.20 Information on trading strategies

There are many different strategies ETO traders adopt when trading ETOs. These depend on whether traders take the view that the underlying asset or the market is likely to rise, fall, or

remain neutral. Below is a brief summary of a few common strategies. There are a number of ways to construct most strategies and the strategies outlined below are only illustrative.

For more detailed information and examples regarding trading strategies using ETOs, you should refer to the 'Pay-off' section of the Understanding Options Trading booklet or the Understanding Strategies booklet available at **asx.com.au** or the strategies outlined at **asx.com.au/documents/resources/UnderstandingStrategies.pdf**.

Bullish Strategies

Bullish strategies do better in a rising market.

Typically bullish strategies involve buying call options and/or selling put options to benefit from increasing underlying asset prices.

- **Long Call**. This strategy involves buying a call option at strike price "A" with the expectation that the underlying share price will rise well above A.
- **Bull Spread**. This strategy involves buying a call option at strike price X and selling a call option at strike price Y, where Y > X, in the expectation that the underlying share price will rise moderately. It allows a trader to gain exposure to market movement at a lower cost.
- **Short Put**. This strategy involves selling a put option at strike price "A" with the expectation that the price will not fall below A. This is considered a mild bullish or neutral strategy.

Bearish Strategies

Bearish strategies do better in a falling market.

Typically, bearish strategies rely on buying put options and/or selling call options to lock in underlying asset prices as prices decrease.

- **Long Put.** This strategy involves buying a put option at strike price "A" with the expectation that the underlying share price will fall well below A and the option will expire.
- **Short Call**. This strategy involves selling a call option at strike price A with the expectation that the underlying share price will fall and the option will expire below A.

Neutral Strategies

Neutral strategies work best in stagnant markets. They involve balancing the purchase and sale of both call and put options to take advantage of any changes in underlying asset prices.

- **Short Straddle**. This strategy typically involves selling a call option at strike price A and selling a put option at strike price A with the expectation that the underlying share price will expire at A, allowing you to keep the option premiums from both sold options.
- **Covered Write**. This strategy involves writing a call option against shares you hold in the underlying stock. It allows you to generate income from the premiums whilst providing some protection against an unexpected fall in the market.

There are many more strategies that are used however you should note more complex strategies may also involve more risk and you should ensure that you understand the strategy you are using and seek specific independent and professional advice about the risks of such strategies.

4.21 Examples of ETO trades

Examples of ETO trade strategies can be found in the ASX Options Clever products for clever investors poster available at **asx.com.au**.

5 ASX Clear and the National Guarantee Fund – Clearing and settlement of trades

ETOs are traded on the ASX's trading platform and cleared through ASX Clear. Trading Participants of ASX must comply with the ASX Settlement Rules. Participants who clear option contracts must comply with the operating rules of ASX Clear (**ASX Clear Rules**). Openmarkets is a participant of both ASX and ASX Clear. ASX Clear is a licensed clearing and settlement facility under the Corporations Act.

5.1 The role of ASX Clear

All ETOs traded for you by Openmarkets will be cleared by ASX Clear, subject to the ASX Clear Rules.

When we enter into an ETO for you, the transaction is reported to ASX Clear for registration. On registration of a contract by ASX Clear, the original traded contract is terminated and replaced by two contracts, known as Derivatives CCP Contracts:

One of those is between the Clearing Participant who clears the contract for the taker of the option contract and ASX Clear.

The other is between the Clearing Participant who clears the contract for the writer of the option contract and ASX Clear.

This process of registration and creation of two Derivatives CCP Contracts is known as 'novation' and is described briefly in the section entitled 'You and your broker' in the ASX booklet Understanding Options Trading available at **asx.com.au**.

You, as the client, are not party to either of those contracts registered with ASX Clear. Although we may act in accordance with your instructions and on your behalf, upon registration of the contract with ASX Clear in our name (at which time a Derivatives CCP Contract is created for each contract the subject of the transaction) we incur obligations to ASX Clear as principal even though we may have entered into the ETO on your instructions.

5.2 Margins

As ASX Clear contracts with Clearing Participants such as Openmarkets as principal, 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. 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. Simply put, the minimum level of cover required to cover margin obligations is the liquidation value of your option contracts.

The writer of an ETO will ordinarily be required to pay margin in respect of that contract or provide collateral acceptable to ASX Clear. That is because ASX Clear is exposed to the risk that the writer will not perform its obligations if and when the option is exercised. The 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 taker of the option can lose in respect of that contract (plus transaction costs).

ASX has adopted the widely used Standard Portfolio Analysis of Risk (**SPAN**) to calculate margin requirements for ETOs. For further details on SPAN margining works please visit **asx.com.au**.

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

We will, under the terms of our agreement with you, call from you all amounts of margin including but not limited to intra-day margins 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 from you in certain circumstances including but not limited to circumstances where we choose to change the multiplier in accordance with market volatility.

Below is a worked example of how a margin call might operate should the value of an asset underlying an option you are trading move adversely to your trade:

In March an investor sells 10 CBA $110 calls, expiring in May at $2.525.

Particulars	Amount
Contracts Sold	10
Price	$2.525
Contract size (i.e. Lot size)	$100
1. Premium (Contracts Sold x Price x Lot size)*	**$2,525.00**
ASX Clear Fees (Fees x Contracts)	-$3.10
GST on ASX Fees (10%)	-$0.31
Commission	-$30.00
GST on Commission	-$3.00

2. Total Fees and Charges	**-$36.41**
(a) Premium Margin	-$2,525.00
(b) Risk Margin	-$7,334.00
(c) Openmarkets Risk Adjustment (Risk Margin x 30%)	-$2,200.20
3. Total Margin (A+B+C)	**-$12,059.20**
Account Balance (1+2+3)	**-$9,570.61**

Further examples of margin calls can be found in the Understanding Margins booklet available at **asx.com.au**.

5.3 Collateral

ASX Clear margin obligations may be met by paying cash or by providing certain types of eligible collateral (for example, shares). Financial products (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 financial products are lodged with ASX Clear, the financial products are held by ASX Clear as 'third party security' in the sense that they represent collateral provided by you to secure our obligations as Clearing Participant to ASX Clear. The lodged financial products cannot be used by us in relation to our dealings or for our other clients in relation to their dealings unless authorised by you.

ASX Clear may apply a 'haircut' in relation to the value of collateral lodged with it, as a risk management tool. For example, if ASX Clear applies a haircut of 30% to the value of shares it takes as collateral and you provide shares with a market value of $10,000 as collateral, only $7,000 will be counted as collateral. This haircut will not apply where the financial products lodged as collateral are the same financial products which underlie the ETO contract. For example, if you have 10 equity call option contracts over BHP shares (representing 1,000 shares), then you can lodge 1,000 BHP shares as collateral against those open contracts. In that case, no haircut is applied and ASX Clear will not call any margin in respect of that contract (because it is not at risk).

The margining process used by ASX Clear is explained in detail in the ASX booklet Margins which is available on the ASX website at **asx.com.au**. You must pay margin to us, or provide alternative collateral which is acceptable to us, within 24 hours of Openmarkets advising you of the margin call. Any interest levied on late settlement and margin payments is due and receivable at the time the amount is levied and certainly within one business day of a demand being made by us.

5.4 Client Trust Accounts

The Corporations Act provides that your money held in our trust account can be used for the purposes of meeting margin obligations, guaranteeing, securing, transferring, adjusting or settling dealings in derivatives.

5.5 National Guarantee Fund

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 us in the course of dealing in ETOs, and we later become 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. There are limits on claims to the NGF for property entrusted.

For more information on the possible protections offered by the NGF see: **segc.com.au** as well as the Openmarkets Client Agreement.

6 Significant benefits of ETOs

ETOs have a number of advantages. These include the following:

- **Risk management.** Put options, when taken, allow you to hedge against a possible fall in the value of shares you hold.
- **Time to decide.** By taking a call option, the purchase price for the shares is locked in. This gives the call option holder until the expiry day to decide whether or not to exercise the option and buy the shares. Likewise, the taker of a put option has time to decide whether or not to sell the shares.
- **Speculation.** The ease of trading in and out of an option position makes it possible to trade options with no intention of ever exercising them. If you expect the market to rise, you may decide to buy call options. If you expect a fall, you may decide to buy put options. Either way you can sell the option prior to expiry to take a profit or limit a loss.
- **Leverage.** Leverage provides the potential to make a higher return from a smaller initial outlay than investing directly. However, leverage usually involves more risks than a direct investment in the underlying securities. Trading in options can allow you to benefit from a change in the price of the share without having to pay the full price of the share. The following example helps illustrate how leverage can work for you.

  The table below compares the purchase of one call option and 100 shares. The higher percentage return from the option demonstrates how leverage can work.

Particulars	Option	Stock
Bought on October 15	$38	$400
Sold on December 15	$67	$450
Profit	$29	$50
Return on investment (not annualised)	76.3%	12.5%

- **Diversification.** Options can allow you to build a diversified portfolio for a lower initial outlay than purchasing shares directly.
- **Income generation.** You can earn extra income over and above dividends by writing call options against your shares, including shares bought using a margin lending facility. By writing an option you receive the option premium up front. While you get to keep the option premium, there is a possibility that you could be exercised against and have to deliver your shares at the exercise price.
- **Profit in 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 strategies will have different levels of risk associated with each strategy.

7 Significant risks of ETOs

Options are not suitable for all investors. In light of the risks associated with trading options, you should use them only if you are confident that you understand them and the risks. Before you invest, you should carefully assess your experience, investment objectives, financial resources and all other relevant considerations, and consult your broker.

The risk of loss in trading in ETOs can be substantial. It is important that you carefully consider whether trading ETOs is appropriate for you in light of your investment objectives and financial circumstances.

You should only trade ETOs if you understand the nature of the products and the extent of your exposure to risks.

The risks attached to investing in ETOs will vary in degree depending on the option traded – see the risks outlined below.

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' (the booklet can be found on the ASX website at **asx.com.au**).

ETOs are not suitable for some retail investors. For example, investors who have a low risk tolerance should not enter into ETOs, which have the potential for unlimited losses. In deciding whether or not you should trade ETOs, you should be aware of the following potential risks:

- **Market risks.** The market value of options is affected by a range of factors (see the section 'Option pricing fundamentals' on page 11). They may fall in price or become worthless on or before expiry. Changes in the price of the underlying may result in changes to the price of an option, but the change can sometimes be in a different direction or of a different magnitude to the change in the price of the underlying.
- **Options are a wasting asset.** Options have an expiry date and therefore a limited life. An option's time value erodes over its life and this accelerates as an option nears expiry. It is important to assess whether the options selected have sufficient time to expiry for your view to be realised.

- **Effect of 'leverage' or 'gearing'**. The initial outlay of capital may be small relative to the total contract value with the result that options transactions are 'leveraged' or 'geared'. A relatively small market movement may have a proportionately larger impact on the value of the contract. This may work against you as well as for you. The use of leverage can lead to large losses as well as large gains.
- **Options writers face potentially unlimited losses.** Writing (selling) options may entail considerably greater risk than taking options. The premium received by the writer (seller) is fixed and limited, however the writer may incur losses greater than that amount. The writer who does not own the underlying securities or does not have offsetting positions potentially faces unlimited losses.
- **Additional margin calls**. You may sustain a total loss of margin funds deposited with your broker in relation to your positions. 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 margins are increased, you may be called upon to pay substantial additional funds on short notice to maintain your position, or upon settlement. If you fail to comply with a request from your broker for additional funds within the time prescribed, they may close out your position and you will be liable for any loss that might result.
- **Liquidity risk**. Market Makers play an important role in the liquidity of the options market. However, their obligations to provide quotes are not unqualified and your ability to trade out of a strategy may depend on you being able to obtain a quote from a Market Maker. The scope of the obligation of Market Makers is described on page 30.
- **Liquidity and pricing relationships**. Market conditions (for example, lack of liquidity) may increase the risk of loss by making it difficult to effect transactions or close out existing positions. Normal pricing relationships may not exist in certain circumstances, for example, in periods of high buying or selling pressure, high market volatility or lack of liquidity in the underlying security.
- **Orderly market powers**. You and your broker, ASX and ASX Clear have broad powers under the ASX Settlement Rules to act in the interests of maintaining fair and orderly markets or of providing services in a fair and effective way. These powers include the ability to suspend trading, impose position limits or exercise limits and terminate open contracts. In some circumstances, this may affect your positions. Similarly, regulatory authorities such as ASIC may give directions to ASX or ASX Clear, for example to suspend dealings in products.
- **Trading disputes**. You should be aware that all options transactions on ASX are subject to the rules, procedures, and practices of ASX and ASX Clear, and the ASIC Market Integrity Rules. Under the ASX Settlement Rules, certain trading disputes between ASX Market Participants (for example errors involving traded prices that do not bear a relationship to fair market or intrinsic value) may lead to ASX cancelling or amending a trade. In these situations the client's consent is not required for the cancellation of a trade.
- **Trading facilities**. As with all trading facilities and systems, there is the possibility of temporary disruption to, or failure of the systems used in ASX's options market, which may result in your order not being executed according to your instructions or not being

executed at all. Your ability to recover certain losses may be subject to limits on liability imposed by the system provider, ASX, ASX Clear or your broker.

8 Costs associated with ETOs

8.1 Premium

The price of an option is known as the premium.

If you are the 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 writer of an ETO, you will be entitled to receive a premium in connection with the sale of the ETO contract.

For stock options, the premium is usually quoted on a cents-per-share basis. In the case of index options, the premium is quoted in terms of index points.

The premium of the option is the only element of the option that is not set by ASX Clear, but instead determined by market forces.

For further detailed information on the premium in respect of an ETO, refer to the relevant section of the Understanding Options booklet available at **asx.com.au** and also the ASX's 'Options Calculators' available at **asx.com.au**.

8.2 Margin and collateral

If you are the writer of an ETO, 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.

Your margin and collateral obligations are discussed in Section 5 above. For further detailed information on margin and collateral requirements, refer to the ASX Margins booklet available at **asx.com.au**.

8.3 Our fees and charges

The details of our fees and charges are provided in Part 2 of this PDS.

9 Complaints

We are committed to providing a high standard of service to clients. If you have a query about the quality or level of service, or if we have failed to meet your expectations, we would like the opportunity to investigate and promptly rectify this for you.

Internal dispute resolution

Our reputation, honesty and high standard of client service are important to us. So that we act with integrity, we have a complaints procedure designed to make sure all concerns are treated seriously and that any complaint is addressed promptly and fairly.

If our level of service should fail to meet with expectations, we'd like to hear about it. Any complaint about your dealings with Openmarkets or associated products or services should be communicated to our Complaints Officer:

- **Online** openmarkets.com.au/contact
- **Email** compliance@openmarkets.com.au
- **Mail**: c/- Openmarkets Client Services, Level 15, 388 George St, Sydney NSW 2000

External dispute resolution

If, after giving an Openmarkets Complaints Officer the opportunity to resolve your complaint, you are not satisfied, you can lodge a complaint in writing to the Australian Financial Complaints Authority (**AFCA**):

- **Phone** 1800 931 678
- **Online** afca.org.au

The Australian Securities and Investments Commission (ASIC) also has an infoline on 1300 300 630 which you may use to make a complaint and obtain information about your rights.

For more information about our dispute resolution process, please refer to the **Openmarkets Financial Services Guide** (**FSG**) for further information on what to do if you have a complaint.

10 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 brief guide 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 trading on revenue or capital account (refer below for further discussion). 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.

10.1 Implications for Australian resident investors

10.1.1 Revenue account

Writer of the option

Where a writer of an option writes an option in the ordinary course of business or the option has been written over an underlying revenue asset, the option will be treated as being on revenue account.

The premium received by the writer of the option will be assessable on a due and receivable basis. Where any premium is credited to the writer's ASX Clear account the amount will still be assessable on this basis.

Any subsequent margin calls are not deductible when they are deposited by the writer into their ASX Clear account.

These margins will merely reduce any net position of the writer upon the close-out, settlement or exercise of the option by the taker.

Where interest is received by the writer on the margins held in their ASX Clear account, this is required to be included in the writer's assessable income.

Taker of the option

A taker 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 taker is generally regarded as being deductible on a due and payable basis. This will generally be at the time the option is entered into.

Where an option on revenue account lapses, there are no further tax implications. 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.

10.1.2 Capital account

Writer of the option

Where a writer 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 writer 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 writer'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 writer upon the close-out, settlement or exercise of the option by the taker.

Where interest is received by the writer on the margins held in their ASX Clear account, this is required to be included in the writer's assessable income.

Exercise of a call option

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 writer's capital proceeds for CGT purposes.

This may have practical implications for writers of options where the premium and sale proceeds are received in different financial years.

Exercise of a put option

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 writers cost base of the underlying asset for CGT purposes.

This may have practical implications for writers 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.

Taker of the option

A taker 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 are no taxation consequences for the taker in respect of any premium paid for options which are held on capital account.

Where an option on capital account lapses, the taker will realise a capital loss at this time, equal to the amount of the premium paid.

When an option is settled or closed-out, the taker 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.

Exercise of a call option

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 taker.

Exercise of a put option

Where a put option is exercised, the taker will generally deduct the option price from the proceeds received on the disposal of the underlying asset.

LEPOs

From an income tax perspective there are no specific legislative rules dealing with LEPOs. Consequently, the taxation consequences of investing in LEPOs will be determined having regard to the respective circumstances of the investor according to general tax principles.

Generally, the taxation consequences of investing in LEPOs will be the same as those outlined above.

However, an alternate view exists, which 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.

10.1.3 Goods and services tax (GST)

The purchase and disposal of ETOs over financial products and indices by investors is not subject to GST.

Part 2: Our fees and charges

This PDS is in two parts. The first part of the PDS contains all information other than the Schedule of Fees.

This second part of the PDS contains the Schedule of Fees.

You should read both parts of the PDS before deciding to trade in ETOs and you should retain the PDS for future reference.

This document should be read in conjunction with Part 1 of the PDS which describes the ETO products traded by us and the FSG. If any of the fees set out in this Part 2 and any of the fees set out in the FSG are inconsistent, the fees set out in the FSG shall prevail.

The following information relates to the way we charge for entering into ETOs for you and associated costs. You should note that transaction costs can affect the profitability of your ETO trades by reducing the expected profits or increasing the expected losses. This may be particularly the case where your ETO trade strategy involves multiple legs to the trade, with each leg attracting its own transaction costs.

The exact cost of your transaction will be disclosed on your trade confirmation.

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.

Brokerage

Brokerage* is charged as follows:

Fees and charges: Exchange traded options – online orders	
Standard Brokerage (incl. GST)	$33 or 0.33% of the premium traded, whichever is great
Exercise or Assignment of Equity Options	$19.95 or 0.11% of trade value plus an ASX Clear fee of $0.055 multiplied by the number of contracts exercised/assigned
Exercise Index Option	ASX Clear fee of $0.385 multiplied by the number of contracts settled
ASX Clear Fees	Charged as per a schedule of fees available at the **ASX website**

*Brokerage is the greater of the dollar value or the percentage amount shown

All brokerage charges are shown on your trade confirmation.

Under our agreement with you, we may charge you up to $5.00 including GST for written trade confirmations which we send to you. No charge applies for electronic trade confirmations.

Government taxes

GST will be charged on all brokerage and fees at the rate of 10%.

ASX Clear fees

ASX Clear will charge a transaction fee per option contract. If you exercise an equity option, ASX Clear will charge an exercise fee.

In the case of index options, ASX Clear charges a transaction fee per contract and an exercise fee per contract.