

CMC Markets Stockbroking Limited

AFSL No. 246381 and ABN 69 081 002 851

Exchange Traded Options

Product Disclosure Statement (PDS)

14 September 2023



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Part 1

01 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 as of the latest date borne by any of the documents which comprise it. Part 1 of this PDS is dated 14 September 2023.

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.

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. 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 cmcmarkets.com.au.

1.2 Purpose of this PDS

This PDS has been prepared by CMC Markets Stockbroking Limited ABN 69 081 002 851 AFSL No. 246381 trading as CMC Markets Invest (referred to in this PDS as '**CMC Markets Stockbroking**', '**we**', '**our**' or '**us**'). Under the *Corporations Act 2001* (Cth) ('**Corporations Act**'), where CMC Markets Stockbroking enters into an ETO on a client's behalf, CMC Markets Stockbroking 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. Information in this PDS may be updated from time to time where that information is not materially adverse to Clients. 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.

1.3 PDS in two parts

This PDS is in two parts. This 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 making a decision 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 CMC Markets Stockbroking, 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**').

In this PDS, equity options and index options 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 shares" however investors should be aware that the underlying financial product may be another kind of financial product.

02 About CMC Markets Stockbroking

CMC Markets Stockbroking is the issuer of ETOs under this PDS. CMC Markets Stockbroking is a Market 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 transactions.

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03 What are ETOs?

3.1 Types of ETOs

The two types of ETOs able to be traded on the market operated by ASX are equity options, index options and LEPOs. These are each discussed briefly below:

(a) Equity options

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

(b) 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 known as 'cash settled' options in the sense that, on exercise of an option, the buyer (taker) of the option will have the right to receive an amount of money and the seller (writer) will have a corresponding obligation to pay that amount (provided the option is 'in-the-money'). The amount of money will be determined by the difference between the exercise level (set by ASX) and the Opening 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.

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); and
- profit from speculation.

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 involves risks which are discussed in more detail in section 7.

3.3 Understanding some concepts

Concepts which should be understood before trading ETOs include:

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

While this PDS provides product information including information about the risks, characteristics and benefits of ETOs, investors should inform themselves and if necessary obtain advice about the specific risks, characteristics and benefits of the ETO they intend to trade and relevant ASX rules.

3.4 ASX educational booklets

ETOs have been traded in Australia since 1976 on the ASX. ASX has prepared a number of educational booklets relating to ETOs. Their current booklets are available free of charge to you via their website [asx.com.au](http://www.asx.com.au), as set out below. This PDS refers to a number of ASX booklets, including:

- 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:
<http://www.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:
<https://www.asx.com.au/documents/resources/UnderstandingStrategies.pdf>
- Margins – this booklet explains what margins are, how they are calculated by ASX Clear and how CMC Markets Stockbroking may meet its margin obligations to ASX Clear:
http://www.asx.com.au/documents/resources/Understanding_Margins.pdf
- Clever products for clever investors – this poster provides diagrams of various trading strategies:
http://www.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:
http://www.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:
http://www.asx.com.au/documents/resources/index_options.pdf

Under the ASIC Market Integrity Rules (Securities Market) 2017 ('ASIC Rules'), we are required to have given you the Understanding Options Trading booklet before we trade ETOs for you.

Please note that the above links are the links as at the date of this PDS and are subject to change by ASX. If you cannot access the ASX booklets via the ASX website, you should contact the ASX. If you would like a hard copy of the Understanding Options Trading booklet, please contact us and we will arrange to forward a copy of that booklet to you at no charge. If you have any questions on any aspect of the booklets you should consult us before making any investment decisions.

04 Basic features of ETOs

The following discussion is not intended to be a detailed discussion 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.

4.1 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 ASX's operating rules.

Details of contract specifications for ETOs are published by the ASX on their website at [asx.com.au](http://www.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;
- the 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;
- the expiry date – ETOs have a limited predetermined life span and generally follow one of the four cycles:

Monthly ETOs expiries:

- (i) January/April/July/October
- (ii) February/May/August/November
- (iii) March/June/September/December.

Weekly ETOs expiries:

- (iv) Expiry day of the week – Thursday

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

Some of the concepts referred to above, such as contract size, exercise style, exercise price and expiry date are discussed in more detail below.

4.2 Writers (sellers) and takers (buyers)

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

ETO sellers are also referred to as 'writers' because they underwrite (or willingly accept) the obligations which are required to be performed on exercise of the ETO (for example, to buy or sell the underlying shares at the exercise price, in the case of an equity option).

Similarly, buyers of ETOs are also referred to as 'takers' as they take up the right to exercise the option (for example, the right to exercise the option to buy or sell underlying shares at the exercise price, in the case of an equity option).

4.3 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 shares 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 shares 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

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.

4.4 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.

4.5 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 call option with a premium quoted at \$0.25 per share and the contract size is 100, the total premium is \$25.00 (being \$0.25 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, a premium of 30 points, with an index multiplier of \$10.00, represents a total premium cost of \$300.00 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.

You can obtain current price information by contacting us.

4.6 Adjustments

The ASX may in accordance with its operating 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.

4.7 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 shares. Of course, the seller (writer) of a call option or the buyer (taker) of a put option who holds the underlying shares 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 shares 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 4.12).

4.8 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 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.

4.9 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.

4.10 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.

4.11 Deliverable or cash settled

ETOs are either deliverable or cash settled.

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.

4.12 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 Operating Rules ('ASX Settlement Rules'). Your obligations in relation to settlement are set out in the CMC Markets Invest Terms and Conditions.

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 Opening Index Price Calculation (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.

4.13 Time for payments to us

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.

4.14 Cooling-off period

There are no cooling-off arrangements for ETOs.

4.15 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.

4.16 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).

4.17 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.

4.18 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 <http://www.asx.com.au/products/equity-options/strategies.htm>.

Bullish Strategies

Bullish strategies do better in a rising market. Typically they 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 they 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.

4.19 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](https://www.asx.com.au).

4.20 Labour standards and environmental, social and ethical considerations

We do not take labour standards or environmental, social or ethical considerations into account in making ETOs available to you.

05 Clearing and settlement arrangements – the role of ASX Clear and the National Guarantee Fund

ETOs are traded on the ASX's trading platform and cleared through ASX Clear. Participants of ASX must comply with the operating rules of the ASX. Participants who clear option contracts must comply with the operating rules of ASX Clear ('**ASX Clear Rules**'). CMC Markets Stockbroking 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 CMC Markets Stockbroking 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](https://www.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" (as defined in the ASIC Rules) even though we may have entered into the ETO on your instructions.

5.2 Margins

As ASX Clear contracts with Clearing Participants such as CMC Markets Stockbroking as "Principal" (as defined in the ASIC Rules), 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.

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).

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 financial product 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 security or index.

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

Product Disclosure Statement

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:

| Example | |
|--|--------------------|
| On 17 July you sell to open 7 call options with a traded value of \$577.50 that expire on 30 July. The margin is calculated at \$4,026.00. | |
| Fees | -\$0.91 |
| GST on fees | -0.09 |
| Premiums – sell | \$577.50 |
| Commission | -\$40.00 |
| GST on commission | -\$4.00 |
| Carried forward balance | \$532.50 |
| Initial margin | -\$4,026.00 |
| Utilised collateral | 0.00 |
| Cash to cover margin | 0.00 |
| Excess/shortage | -\$3,493.50 |
| You will need to use cash or approved stock to provide funds of \$3,493.50 (Margin of \$4,026.00 – premium of \$532.50 = \$3,493.50) to avoid being in margin call. | |
| On 20 July the ASX notifies CMC Markets Stockbroking that additional margin is required to support the open position. The ASX requests additional margin from you of \$2,496.00. | |
| Additional margin | -\$2,496.00 |
| Utilised collateral | 0.00 |
| Cash to cover margin | 0.00 |
| Excess/shortage | -\$2,496.00 |
| You will need to use cash or approved stock to provide funds of \$2,496.00 to avoid being in margin call. | |

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

Further information on the mechanics of the ASX margin calculation is available at

<https://www.asx.com.au/documents/clearing/span-examples.pdf>.

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 12 hours of CMC Markets Stockbroking 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:

1. if an equity option is exercised, the NGF guarantees completion of the resulting trades in certain circumstances; and

2. 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.

06 Significant benefits of ETOs

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

Hedging. Investors can hedge (protect) their share portfolio against a drop in value by, for example, buying equity put options over particular shares or by buying index put options.

Income. Shareholders can earn income by writing call options over shares they already hold. As a writer of options, the investor will receive the premium amount up front, when the option is entered into. The risk is that the writer will need to maintain margin obligations throughout the life of the position and may be exercised against and be required to sell their shares to the taker at the exercise price.

Time to decide. By taking a call option, the purchase price for the underlying shares is locked in. This gives the call option holder time to decide whether or not to exercise the option and buy the shares. The holder has until the expiry date to make their decision. Likewise the taker of a put option has time to decide whether or not to sell the shares.

Reduce risk. ETOs benefit from standardisation and registration with a clearing and settlement facility which reduces counterparty default risk. The Clearing Participant's risk is to ASX Clear, not to a third party. This process also provides the benefit that an open position can be closed out without having to deal with the original counterparty.

Speculation. ETOs can be used for speculation where the flexibility of entering and exiting the market prior to expiry (subject to liquidity) permits an investor to take a view on market movements and trade accordingly. In addition the variety of option combinations allows investors to develop strategies regardless of the direction of the market.

Profit in 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.

Leverage. The initial outlay for an options contract is not as much as investing directly in the underlying shares. Trading in options can allow investors to benefit from a change in the price of the share without having to pay the full price of the share.

An investor can therefore purchase an option (representing a larger number of underlying shares) for less outlay and still benefit from a price move in the underlying shares. The ability to make a higher return for a smaller initial outlay is called leverage. Investors however, need to understand that leverage can also produce increased risks (see below).

Diversification. Given the lower initial outlay attaching to options, investors can diversify their portfolio and gain a broad market exposure over a range of financial products or the index itself.

07 Significant risks of ETOs

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:

- (a) **Price sensitive announcements.** As a general rule, price movements in the underlying share can significantly affect the value of ETOs. The value of the underlying share is affected by information that is announced to ASX in relation to the share. Accordingly, it is advisable that an investor in ETOs regularly reviews information announced to ASX in relation to relevant underlying shares. Price sensitive announcements in relation to shares are available on the ASX website at asx.com.au.
- (b) **Leverage.** The high level of leverage that is obtainable in trading ETOs (due to the low level of initial capital outlay) can work against an investor as well as for the investor. Depending on the market movement, the use of leverage may lead to large losses as well as large gains.
- (c) **Limited life span.** ETOs have a limited life span as their value erodes as the option reaches its expiry date. Time value represents the amount you are prepared to pay for the possibility that the market might move in your favour during the life of the option. As time draws closer to expiry and the opportunities for the option to become profitable decline, the time value declines. Time value does not decay at a constant rate, but becomes more rapid towards expiry. It is therefore important to ensure that the option selected meets the investors investment objectives.
- (d) **Market movements.** ETOs are subject to movements in the underlying market. Options may fall in price or become worthless at or before expiry.
- (e) **Loss of premium for buyers.** The maximum loss in taking (buying) an ETO is the amount of premium paid plus transaction costs. If the option expires worthless, the taker will lose the total value paid for the option (the premium) plus transaction costs.
- (f) **Unlimited loss for sellers.** While writers (sellers) of ETOs earn premium income, they may also incur unlimited losses if the market moves against the option position. The premium received by the writer is a fixed amount; however, the writer may incur losses greater than that amount. For example, the writer of a call option has increased risk where the market rises and the writer does not own the underlying shares.

If the option is exercised, the writer of the option is forced to buy the underlying shares at the current (higher) market price in order to deliver them to the taker at the exercise price. Similarly, where the market falls, the writer of a put option that is exercised is forced to buy the underlying shares from the taker at a price above the current market price.

- (g) **Loss of margin for writer.** Writers of options could sustain a total loss of margin funds deposited with their broker where the market moves against the option position. In addition, the writer may be obligated to pay additional margin funds (which may be substantial) to maintain the option position or upon settlement of the contract. Margining is discussed further in section 5.2.
- (h) **Close-out difficulties.** Under certain conditions, it could become difficult or impossible to close out a position or the relationship between the price of the ETO and the underlying financial product may be distorted. Examples of when this may happen include:
- (i) if there is a significant change in the price of the underlying financial product over a short time period;
 - (ii) if there is an absence or reduction in the number of willing takers and writers in either the ETOs market or the underlying market; or
 - (iii) if the market is suspended or disrupted for any reason.
- (i) **Underlying market.** Similarly, events such as these in relation to the underlying market for the financial product may make it difficult for you to hedge or maintain your exposure under an open ETO contract.
- (j) **Contingent orders difficult.** The placing of contingent orders (such as a stop loss order) 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 financial product 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.
- (k) **ASX powers.** The 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 option positions.
- (l) **Trading disputes.** Trades effected on the ASX may be subject to dispute. When a trade is subject to a dispute the ASX has powers, in accordance with its 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.
- (m) **Trade amendments and cancellations.** Under our Terms and Conditions, we have the ability to amend or cancel the 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 the client.
- (n) **System outages.** Trades effected on the 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 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. An investor's ability to recover certain losses in these circumstances will be limited given the limits of liability imposed by the ASX and ASX Clear. Any market disruption may mean you are unable to deal in ETOs when desired, and you may suffer a loss as a result. Common examples of disruption include a fire or other exchange emergency. The exchange could also, for example, declare an undesirable situation has developed in a particular ETO contract and suspend trading. Exchanges or participants may also be able to cancel transactions under their operating rules.
- (o) **Capital loss.** By trading in ETOs, you are exposed to the risk of losing capital. Speculators should not risk more capital than they can afford to lose. A good general rule is never to speculate with money which, if lost, would alter your standard of living.
- (p) **Default.** If:
- (i) you fail to pay, or provide security for, amounts payable to us;
 - (ii) you fail to perform any obligation arising pursuant to the exercise or settlement of a Derivatives CCP Contract;
 - (iii) a guarantee lodged by you pursuant to the ASIC Rules, ASX Settlement Rules or ASX Clear Rules (together the Rules) is withdrawn or becomes ineffective; or
 - (iv) any other event occurs which you and CMC Markets Stockbroking have agreed constitutes a default,

we may, in addition to any other rights which we may have against you, without giving prior notice to you, take any action, or refrain from taking action, which we consider reasonable in the circumstances in connection with Derivatives CCP Contracts registered in your account and, without limitation, we may:

- (v) enter into one or more transactions to effect the close out of one or more Derivatives CCP Contracts in accordance with the ASX Clear Rules;
- (vi) exercise one or more Derivatives CCP Contracts in accordance with the ASX Clear Rules; or
- (vii) exercise any other rights conferred by the Rules or any agreement between us and you or perform any other obligations arising under the Rules or any agreement between us and you in respect of these Derivatives CCP Contracts, and you must account to us as if those actions were taken on your instructions and, without limitation, you are liable for any deficiency and any surplus which may result.

08 Costs associated with ETOs

8.1 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 the connection with the sale of the ETO contract.

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.

09 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

You can make a complaint verbally by calling us or write to us via email or post, through the details provided below, you may also appoint a representative to lodge complaints with us, on your behalf.

Phone: 1300 360 071

Email: brokingservice@cmcmarkets.com.au

Mail: GPO Box 5351 Sydney NSW 2001

If your concerns are unable to be resolved at the first point of contact, a complaint will be raised on your behalf to our dedicated in-house complaints team for further investigation. Additional information and/or supporting documents may be requested to support your complaint.

Upon receipt of all required supporting documents, our complaints team will conduct a thorough investigation and once completed a detailed written final response will be provided to you.

We aim to resolve most issues within 21 days. However, some matters are more complex and can take longer to resolve. If that is the case, we'll keep you informed of our progress, including reasons for the delay.

We will respond to any communication, complaint, claim or dispute in English. Any translation or language assistance provided shall be for convenience only and to the extent there is a conflict between the English version and any translation, the English version shall prevail.

We expect that our frontline staff, supervisors or Complaint Officer will completely resolve the issues you raise. If, despite our best efforts, you believe your complaint has not been satisfactorily dealt with, you may wish to contact an external dispute resolution scheme.

External dispute resolution

AFCA

CMC Markets Stockbroking is a member of an external dispute resolution scheme operated by the Australian Financial Complaints Authority ('AFCA'). If you are not satisfied with the final response issued by CMC Markets Stockbroking, you may refer the matter to AFCA within 2 years of the date of the final response. AFCA provides fair and independent financial services complaint resolution that is free to all consumers.

Mail: Australian Financial Complaints Authority GPO

Box 3 Melbourne VIC 3001 Australia

Phone: 1800 931 678

Email: info@afca.org.au

Website: www.afca.org.au

ASIC

You may also choose to refer the matter to the Australian Securities and Investments Commission ('ASIC'). ASIC may be contacted on their free call Infoline 1300 300 630.

Arbitration and Legal Proceedings

If the complaint does not fall within the rules of AFCA, you may request CMC Markets Stockbroking to submit the complaint to arbitration.

If CMC Markets Stockbroking agrees to your request, the arbitration will be conducted in accordance with, and subject to, the Institution of Arbitrators and Mediators of Australia Expedited Commercial Arbitration Rules. To the extent permitted under those rules the Arbitrator will be a person recommended by the New South Wales Chapter of the Institute of Arbitrators and Mediators of Australia.

If CMC Markets Stockbroking does not agree to your request, you may not submit the dispute to arbitration, although you may commence legal proceedings against CMC Markets Stockbroking, in which case you agree to submit the dispute to the courts of New South Wales, Australia.

Governing laws

To the maximum extent permitted by law, any dispute or difference whatsoever raised by you in connection with the CMC Markets Invest Financial Services Guide ('FSG') and CMC Markets Invest Terms and Conditions or other relevant documents ('CMC Markets Documents') and our products must be dealt with in Australia as described above. The CMC Markets Documents are governed by the laws of New South Wales, Australia.

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 writer's 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.

10.2 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 making a decision to trade in ETOs and you should retain the PDS for future reference.

This document, which forms Part 2 of CMC Markets Stockbroking's ETOs PDS, is dated 14 September 2023. This document should be read in conjunction with the Part 1 of the PDS which describes the ETO products traded by us and the CMC Markets Invest Financial Services Guide (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.

Government taxes

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

ASX Clear fees

ASX Clear charges a registration fee per listed single stock option contract. If you exercise or are assigned on an equity option, ASX Clear charges an exercise or assignment fee. In the case of index options, ASX Clear charges a transaction fee and an exercise or assignment fee.

These fees are set out in the fee schedule on ASX's website and the actual fee applied is outlined on your trading 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.

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International Towers
300 Barangaroo Avenue
Sydney NSW 2000
Australia

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