

CMC Markets Target Market Determination – Exchange Traded Options

Issuer	CMC Markets Stockbroking Limited ABN/ACN 69 081 002 851 AFSL 246381 (" CMC Markets ")
Product	Exchange traded options (" ETOs ") traded on the ASX market
Date of TMD	26 July, 2021
Overview of this document	<p>This document is a target market determination for the purposes of section 994B of the <i>Corporations Act 2001</i> (Cth) ("Corporations Act") in respect of ETOs issued by CMC Markets.</p> <p>This document applies to retail clients only ("Clients"). It is not a product disclosure statement ("PDS") and does not take into account any particular Client's objectives, financial situation or needs. ETOs are typically suitable for Clients who have sufficient experience and understanding of the product. Refer to the "Overview of ETOs" section below which covers off the risks of trading ETOs. You should refer to our PDS at cmcmarkets.com.au as well as any other relevant CMC Markets documents, ensure you fully understand the risks involved, and consider seeking independent advice before deciding to trade ETOs.</p>
Clients for whom ETOs are unsuitable	<p>ETOs will generally not be suitable for Clients outside the target market. Potential categories would include:</p> <ul style="list-style-type: none"> • Clients who do not understand the risks of ETOs as applicable to their proposed trading; and • Clients who cannot bear the consequences of potential losses without material impact on their standard of living.
Overview of ETOs	<p>ETOs are options quoted on the ASX. The underlying product can be an individual financial product, such as a quoted share or other financial product, or an index.</p> <p>There are three main reasons why Clients may trade via ETOs:</p> <ul style="list-style-type: none"> • to reduce risk by hedging against other exposures (e.g. acquiring an ETO over shares the Client already holds), or to lock in a price to purchase or sell underlying investments; • to earn increased income by obtaining premium from selling ETOs; or • to seek to make profits from trading. <p>ETOs are subject to significant risks, including but not limited to:</p> <ul style="list-style-type: none"> • Buyers of ETOs may lose their entire premium (i.e. the entire up-front amount invested) if the ETO is not in-the-money at the time of exercise. Depending on the strategy used, losses can be substantial; • Generally speaking, ETOs are not suitable for Clients who are unable to withstand losses without material personal hardship.

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	<ul style="list-style-type: none"> • ETOs are also typically only suitable for investors who have sufficient experience and understanding of the product; • ETOs are a leveraged instrument. Leverage can magnify losses as well as gains. In other words, a high degree of leverage involved in many ETOs can work against a Client, multiplying their losses if the market moves against them; • ETOs have a limited life span and will expire. Their time value falls as they approach their expiry date, and they are worth nothing after they expire (if unexercised). Accordingly, Clients trading ETOs should actively manage their open positions, particularly as expiry dates approach; • Sellers of ETOs are exposed to potential margin calls, which may require cash or other assets to be lodged at short notice; and • Sellers of uncovered ETOs are exposed to potential material risk, including material losses for sellers of uncovered put options and potentially unlimited losses for sellers of uncovered call options. <p>It should also be noted that under the ASX Clear Operating Rules ("Rules") (paragraph S5.3 of Schedule 5), a client wishing to trade in ETOs is required to acknowledge that:</p> <ul style="list-style-type: none"> • they have read and understood the documents (if any) given to them under 7.1.1(b) of the Rules; • dealing in derivatives incurs a risk of loss as well as a potential for profit; and <p>they have given consideration to its objectives, financial situation and needs and formed the opinion that dealing in derivatives is suitable for their purposes.</p> <p>For further details in relation to risks associated with ETOs, refer to our PDS.</p>
<p>Target Market for ETOs (s994B(5)(b))</p>	<p>Given the diverse nature of ETOs and different strategies that may be associated with trading ETOs, CMC Markets consider that the target market for ETOs is a Client that falls within one (or more) of the below categories, noting there may also be some overlap between categories:</p> <ul style="list-style-type: none"> • High Risk Tolerance Investors – Clients seeking to make profit via trading; • Risk Mitigation Investors – Clients seeking to hedge potential risk from other investments or exposures to; or lock in a price to purchase or sell underlying investments; and • Premium Generation Investors – Clients seeking to earn income by selling ETOs covered by holdings of underlying assets. <p>Note it is not necessary for a Client to fall within all three categories; it is sufficient for a Client to fall within one of the above categories to be within the target market for ETOs.</p>
<p>Likely objectives, financial situation and needs of</p>	<p>High Risk Tolerance Investors are Clients likely to have a higher risk appetite and who are seeking higher returns through riskier strategies and are prepared to suffer material losses (and able to withstand such losses).</p>

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<p>Clients in the target market</p>	<ul style="list-style-type: none"> • <u>Likely objectives</u>: Use existing assets to support leverage in order to seek higher returns with corresponding higher risk. • <u>Likely financial situation</u>: Have a relatively high and regular income and/or substantial holdings of spare capital available for investment. Are able to withstand losses from trading ETOs without causing distress or material impact on living standards. • <u>Likely needs</u>: Wish to use spare capital to make enhanced returns. <p>Risk Mitigation Investors are Clients who are likely to be more risk averse than High Risk Tolerance Investors looking to protect previous gains, lock in purchase or sale prices, or mitigate against potential future losses.</p> <ul style="list-style-type: none"> • <u>Likely objectives</u>: Protect previous gains or mitigate against potential future losses and/or lower the economic exposure to underlying assets. • <u>Likely financial situation</u>: Have existing or forthcoming investments or exposures which the Client wishes to hedge. • <u>Likely needs</u>: Loss or profit protection. <p>Premium Generation Investors are likely to be Clients with a moderate risk appetite who are looking to increase their yield but prepared to have the ETOs exercised against them.</p> <ul style="list-style-type: none"> • <u>Likely objectives</u>: Increase their income return. • <u>Likely financial situation</u>: Hold existing positions in underlying assets. Require a regular income. Are able to address capital gains tax position if ETOs sold by the Client are exercised against. • <u>Likely needs</u>: Increase income return.
<p>Different strategies</p>	<p>CMC Markets expect High Risk Tolerance Investors will be likely to engage in the following strategies:</p> <ul style="list-style-type: none"> • Buying call option and put options (noting that these financial products, of themselves, may not be particularly high risk depending upon the circumstances) ("Level 1 ETOs"); • Selling covered call options ("Level 2 ETOs"); • Spreads and various defined multi-leg strategies potentially including uncovered legs ("Level 3 ETOs"); and • Selling uncovered call and put options either in isolation or as part of a custom options strategy ("Level 4 ETOs").

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	<p>CMC Markets expect Risk Mitigation Investors will be likely trading predominantly in Level 1 ETOs.</p> <p>CMC Markets expect Premium Generation Investors will be likely trading predominantly in Level 2 ETOs.</p> <p>Finally, CMC Markets consider that the target market for ETOs includes any Client whose open ETO position are being closed out at any time (whether on the instruction of the Client, due to the exercise of rights by CMC Markets, by the action of ASX group, or otherwise), even if that Client would not otherwise fall within a category within the target market.</p>
<p>Explanation of why ETOs are likely to be consistent with the likely objectives, financial situation and needs of the target market (s994B(8))</p>	<p>CMC Markets expects that trading in Level 1, 2, 3 and 4 ETOs will likely be consistent with the likely objectives, financial situation and needs of High Risk Tolerance Investors because, through trading on leverage, ETOs offer the potential for enhanced returns, and this class of Clients should be able to bear any potential losses without material hardship.</p> <p>CMC Markets expect that trading in Level 1 ETOs will likely be consistent with the likely objectives, financial situation and needs of Risk Mitigation Investors because these products offer the ability to economically protect or lock-in any previous profits or forthcoming profits from exposure to an underlying asset and/or protect against future losses. For example, by buying put options over an underlying asset, a Client can attempt to make a profit from any downtrend to offset any loss from a Client’s existing long exposure to the same underlying asset.</p> <p>CMC Markets expect that Level 2 ETOs will likely be consistent with the likely objectives, financial situation and needs of Premium Generation Investors because these products offer the potential for increased income, and this class of Client should be able to bear any consequences of their ETOs being exercised against without material hardship.</p>
<p>Distribution Conditions (s994B(5)(c))</p>	<p>Any distribution of ETOs by CMC Markets directly to Clients will be in accordance with procedures CMC Markets determine are reasonably likely to ensure that ETOs are only issued to Clients who are reasonably likely to be within the target market.</p> <p>Third party distribution of ETOs issued by CMC Markets must only occur in accordance with the Client suitability and understanding procedures specified by CMC Markets. No third-party distributor is permitted to distribute ETOs issued by CMC Markets to Clients unless CMC Markets considers on reasonable grounds that each relevant Client is likely to be within the target market. Third party distributors must establish, implement and maintain appropriate procedures, processes and controls with a view to ensuring that ETOs are distributed in accordance with this TMD.</p> <p>CMC Markets selects its distribution criteria depending on the medium used. The criteria selected for each medium allow CMC Markets to demonstrate that the audience targeted has or is highly likely to have an interest and/or prior experience trading on financial markets.</p>

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Review Triggers (s994B(5)(d))	<p>The review triggers that may suggest that the TMD is no longer appropriate, such that a review of the TMD should be undertaken, include:</p> <ul style="list-style-type: none"> • CMC Markets become aware of a significant issuance of ETOs to Clients outside the target market; • Material changes to the ETO product construct by ASX group whereby key attributes of ETOs are no longer consistent with the likely objectives, financial situation and needs of Clients in the target market; • Material changes to law or regulation affecting ETOs; • CMC Markets become aware of a significant volume of complaints from Clients trading ETOs, with regards to the substance of these complaints and/or general feedback relating to ETOs. • Any other event or circumstance that would materially change a factor taken into account in making this TMD for ETOs. 												
Review Periods (s994B(5)(e), (f))	<p>This TMD must be reviewed at least every 12 months from the date of this TMD, and more frequently if a review trigger occurs.</p>												
Distributor Reporting Requirements (s994B(5)(g), (h))	<p>The following information must be provided to CMC Markets by distributors who engage in retail product distribution conduct in relation to this product:</p> <table border="1" data-bbox="491 1223 1391 1798"> <thead> <tr> <th data-bbox="491 1223 818 1283">Type of information</th> <th data-bbox="826 1223 1102 1283">Description</th> <th data-bbox="1110 1223 1391 1283">Reporting period</th> </tr> </thead> <tbody> <tr> <td data-bbox="491 1294 818 1507">Complaints</td> <td data-bbox="826 1294 1102 1507">Complaints related to the options product are to be reported to us within 5 days of receiving the complaint.</td> <td data-bbox="1110 1294 1391 1507">As received.</td> </tr> <tr> <td data-bbox="491 1518 818 1731">Significant dealing(s) outside the target market</td> <td data-bbox="826 1518 1102 1731">Date range of the significant dealing(s) and description of the extent and nature of the significant dealing</td> <td data-bbox="1110 1518 1391 1731">As soon as practicable, and in any case within 10 business days after becoming aware</td> </tr> <tr> <td data-bbox="491 1742 818 1798"></td> <td data-bbox="826 1742 1102 1798"></td> <td data-bbox="1110 1742 1391 1798"></td> </tr> </tbody> </table>	Type of information	Description	Reporting period	Complaints	Complaints related to the options product are to be reported to us within 5 days of receiving the complaint.	As received.	Significant dealing(s) outside the target market	Date range of the significant dealing(s) and description of the extent and nature of the significant dealing	As soon as practicable, and in any case within 10 business days after becoming aware			
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