Supplementary Application

For Derivatives

Super Funds
Trusts
Estates
Minors

Individual
Joint
Sole Trader

PhillipCapital
Your Partner In Finance

PhillipCapital
Your Partner In Finance

Welcome to PhillipCapital

As a full service Stockbroker, we pride ourselves in providing appropriate General Advice strategies for derivatives including warrants and exchange traded options. We also provide execution for your transactions with the relevant exchange.

Pershing Securities Australia Pty Ltd ABN 60 136 184 962 AFSL 338264 (Pershing) has been appointed by PhillipCapital as its Clearing Participant and Pershing will settle your equities, warrants and exchange traded options transactions.

Supplementary Account Application for Derivatives

*This Supplementary Account Application for Derivatives is to be completed by **clients who hold an Equities Account** with PhillipCapital and who wish to trade Derivatives - which includes Warrants and Exchange Traded Options.*

If you do not have an Equities account with PhillipCapital, please do not use this form. Please complete the Account Application for Equities and Derivaties.

Before proceeding

US citizens and US tax residents are considered tax residents for US tax purposes even if they pay tax in another jurisdiction. If this applies, please speak with a PhillipCapital adviser about your tax status to ascertain how to proceed.

ACCOUNT APPLICATION AGREEMENT

Equities and Derivatives
Individual, Joint and Sole Trader accounts

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PhillipCapital
Your Partner In Finance

Privacy Act 1988 Information Collection Statement

PhillipCapital is legally bound by the Privacy Act and Australian Privacy Principles.

We are committed to a culture that respects the privacy of individuals by ensuring the security of their Personal Information. PhillipCapital's Privacy Policy contains further details on its information handling practices and explains in more detail what personal information it collects, methods of collection, purposes of collection, retention, use and disclosure, when it may disclose your Personal Information, who it discloses your Personal Information to, the countries it may disclose your Personal Information to and how you may opt out from receiving marketing information.

The Privacy Policy also explains your rights including how you may access and request correction of your Personal Information or complain about a breach of the Australian Privacy Principles by PhillipCapital.

The Privacy Policy is available at www.phillipcapital.com.au

SECTION 1

Select your account type : ☐ Individual ☐ Joint ☐ Sole Trader

Select your account status : ☐ Superfund ☐ Trust ☐ Estate ☐ Minor

SECTION 2

APPLICANT 1

Must be the <u>same name and designation as for your current Equity Account</u>. If a different name/s are required to open an Account please complete the Account Application for Equities and Derivatives.

Title ☐ Dr. ☐ Mr. ☐ Mrs. ☐ Miss ☐ Ms ☐ Other

Given Names
Individual / Trustee / Beneficiary / Executor *(do not use initials)*

Surname

Account Designation
(maximum 25 characters - Do not use Trust/Trustee/ATF/Discretionary/Testamentary Fund)

If Sole Trader - ABN
(as registered with the ATO)

Sole trader Business Name
As registered with the ATO (confirm at : http://www.abr.business.gov.au/)

Complete the following information if it has changed since your equities account was opened

Registration/Postal Address
Street Number & Name *Suburb* *State* *Postcode*

Residential Address
(If different to above) *Street Number & Name* *Suburb* *State* *Postcode*

Work Phone

Home Phone

Mobile

Email
Trade Confirmations will be sent to this email unless you advise a different email address in Section 6

APPLICANT 2

Must be the same name and designation as for your current Equity Account. If a different name/s are required to open an Account please complete the Account Application for Equities and Derivatives.

Title ☐ Dr. ☐ Mr. ☐ Mrs. ☐ Miss ☐ Ms ☐ Other

Given Names
Individual / Trustee / Beneficiary / Executor *(do not use initials)*

Surname

COMPLETE THE FOLLOWING INFORMATION IF IT HAS CHANGED SINCE YOUR EQUITIES ACCOUNT WAS OPENED

Registration/Postal Address
Street Number & Name *Suburb* *State* *Postcode*

Residential Address
(If different to above) *Street Number & Name* *Suburb* *State* *Postcode*

Work Phone

Home Phone

Mobile

Email

APPLICANT 3

Must be the same name and designation as for your current Equity Account. If a different name/s are required to open an Account please complete the Account Application for Equities and Derivatives.

COMPLETE THE FOLLOWING INFORMATION IF IT HAS CHANGED SINCE YOUR EQUITIES ACCOUNT WAS OPENED

Title ☐ Dr. ☐ Mr. ☐ Mrs. ☐ Miss ☐ Ms ☐ Other

Given Names
Individual / Trustee / Beneficiary / Executor *(do not use initials)*

Surname

Complete the following information if it has changed since your equities account was opened

Registration/Postal Address
Street Number & Name *Suburb* *State* *Postcode*

Residential Address
(If different to above) *Street Number & Name* *Suburb* *State* *Postcode*

Work Phone

Home Phone

Mobile

Email

SECTION 2.1 - SUPERANNUATION FUND, TRUST, ESTATE

Trustee or Guardian details should be completed below, if changed from Equities Account.

Note: Deceased Estates - follow instructions in Annexure 1.

1 Trust Details

Full Name of Trust

SECTION 3 - SETTLEMENT INSTRUCTIONS

IF NOT IN YOUR EQUITIES ACCOUNT - will also be applied to your Equities Account

A THIRD PARTY SETTLEMENT

☐ *Tick here* If you will settle via a third party; eg. Margin Lender — If ***NO***, go to Section 4

If ***YES*** Third Party Name in full

Account number with Third Party — HIN

SECTION 4 - BANKING INSTRUCTIONS

IF NOT IN YOUR EQUITIES ACCOUNT - will also be applied to your Equities Account

ASX T+2 settlement obligations require you to provide funds the day after trade date therefore you are required to establish a Direct Debit and Direct Credit facility. Pershing, PhillipCapital's Clearing Participant, will settle exchange traded transactions by directly debiting and crediting your nominated bank account.

A DIRECT DEBIT (Mandatory - for Options Accounts)

☐ *Tick here* for Direct Debit and complete the ***Pershing Direct Debit / Credit form*** in ***Attachment A.***

B DIRECT CREDIT (Mandatory - for Options Accounts)

☐ *Tick here* to authorise ***Direct Credit*** and provide your bank details below. This provides direct settlement of sale transactions only.

Financial Institution Name — BSB — Account Number

Account Name

(must be the same name as the account)

C CREDIT OF DIVIDEND AND INTEREST PAYMENTS AUTHORITY

This is applicable if you appoint PhillipCapital as your CHESS Sponsoring Broker - refer Section 5A below.

☐ *Tick here* to authorise PhillipCapital to arrange for your dividends for sponsored holdings to be paid directly into your bank account, and to authorise PhillipCapital to instruct the company Registries for your sponsored holdings to pay the dividends into your nominated bank account as above. This authority will apply until it is revoked by you in writing to PhillipCapital.

If the company Registry will not accept instructions to pay dividends other than directly from the shareholder, the relevant Registry will request you to provide instructions.

D INCOME DIRECTION

☐ *Tick here* if you wish to direct the deposits of your cash dividends and distributions electronically to a different bank account to the bank account nominated in C above.

If ***YES*** complete the ***Income Direction Form*** in ***Attachment A*** to authorize the Direction.

You must also be ***CHESS Sponsored*** by PhillipCapital in ***Section 5A*** to authorise this direction.

SECTION 5 - SPONSORSHIP

IF NOT IN YOUR EQUITIES ACCOUNT - MANDATORY FOR OPTIONS ACCOUNTS - will also be applied to your Equities Account

A CHESS SPONSORSHIP

CHESS Broker sponsored means your holdings will be identified by a single Holder Identification Number (HIN) at the relevant share registries.

☐ *Tick here* to request and authorise to be CHESS Sponsored with Phillip Capital Limited - ***mandatory for your Equity Account if you trade Options***

By indicating that you wish to be CHESS Sponsored you agree that your holdings will be sponsored in accordance with the ***CHESS Sponsorship Agreement Terms and Conditions*** in ***Attachment B*** and that you have read and understood those Terms and Conditions.

If required Options Account Applicants must complete Registered Holder Collateral Cover/Authorisations at Attachment A.

B HIN TRANSFER FROM ANOTHER BROKER

☐ *Tick here* if you hold a HIN with another broker and authorise your CHESS Sponsorship and your holdings to be transfered to PhillipCapital.

If ***YES*** complete the ***Request for Change of Sponsoring Broker form*** in ***Attachment A*** which authorises PhillipCapital to transfer your CHESS Sponsorship and holdings to PhillipCapital at no cost to you and agree to the ***CHESS Sponsorship Agreement Terms and Conditions*** in ***Attachment B***.

It may be necessary to re-lodge your standing instructions with the share registries after some transfers. These instructions include tax file numbers, banking details or dividend instructions.

The **name and registration details that appear on your current registered holdings statement** must be the same as on your PhillipCapital Share Trading Account or your request to transfer holdings may be delayed or rejected.

If you wish to change your details at any time you must do so in writing to Phillip Capital Limited as your sponsoring broker.

If required Options account applications must complete - Broker to Broker Transfer Authority Form at Attachment A.

C ISSUER SPONSORED HOLDINGS TRANSFER TO CHESS SPONSORED

☐ *Tick here* to request and authorise PhillipCapital to transfer your Issuer Sponsored Holdings to PhillipCapital and that you agree that your holdings will be sponsored in accordance with the attached **CHESS Sponsorship Agreement** and that you have read and understood the **Terms and Conditions of the CHESS Sponsorship Agreement Terms and Conditions**.

Attach copies of your Issuer Holding Statements for holdings you require to be transfered to CHESS Sponsored.

SECTION 6 - TRADE CONFIRMATION *(Mandatory)*

IF YOU WISH TO CHANGE YOUR EMAIL ADDRESS ONLY - will be applied to your Equities Account

Email address:

If you change your trade confirmation delivery address this will also change the address for your equities trade confirmations.

We are required by Corporations Act to give the original Confirmation to you as the account owner.

ADDITIONAL COPIES OF CONFIRMATIONS - if this is changed it will be applied to your Equities account

☐ *Tick here* If you require a third party to receive copies of Confirmations of your transactions. Please provide your nominated third party's email address - additional copies will only be sent by email to the email address you provide below.

Third Party Email :

SECTION 7 - APPOINTMENT OF THIRD PARTY/IES *(Mandatory for clients referred by Financial Planners)*

IF NOT IN YOUR EQUITIES ACCOUNT.

If you change your TPA/POA this will also change your TPA/POA Authority on your Equities Account.

Third Party Authority: to appoint a person/entity to manage your account, complete the **Third Party Authority Form** in **Attachment A** and seek your own advice about the appointment and any limitations that you wish to impose.

Power of Attorney: seek your own legal advice and provide the executed Power of Attorney or a certified copy of Power of Attorney

SECTION 8 - PRODUCTS YOU WISH TRADE *(Mandatory)*

Tick below to indicate the product/s you wish to trade and receive advice as indicated in Section 9 below:
Also please ensure you have read and understood the documents in the Section titled **"All Applicants – All Products" in Attachment B.**

If you apply for a Warrant or Exchange Traded Options Account, you are also required to apply for an Equities account.

☐ Warrants

If **YES** Please complete the ***Warrants Agreement Form*** in ***Attachment A.***
And ensure you have read and understood the following documents in ***Attachment B.***

ASX Understanding Trading and Investing in Warrants brochure and Chi-X Investing in Warrants brochure

☐ Exchange Traded Options

If **YES** Please complete the forms in ***Attachment A*** if applicable, and ensure you have read and understood the following documents in ***Attachment B.***

PhillipCapital ETO Product Disclosure Statement
PhillipCapital Terms and Conditions – Derivatives
Pershing Derivatives Client Agreement
ASX Understanding Options brochure

SECTION 9 - CLIENT INVESTMENT ADVICE SELECTION *(Mandatory)*

This is an important questionnaire
If you require clarification please contact your Adviser.

TYPES OF ADVICE - *you must select either A or B*

A Execution Only - Financial Planner Clients only

☐ *Tick here* to indicate that as you are a client of a Financial Planner you are aware and acknowledge that PhillipCapital **WILL NOT** provide you with advice.

PhillipCapital can provide you with General Advice for Derivatives, as indicated in the **Financial Services Guide** in **Attachment B.**

B General Advice - Derivatives

☐ *Tick here* if you require General Advice for Derivatives

GENERAL ADVICE does not take into account your investment objectives, financial situation or personal needs. Before making an investment decision on the basis of General Advice, you need to consider the appropriateness of the advice having regard to your investment objectives, financial situation and particular needs and you should also consider seeking professional advice.

SECTION 10 - DOCUMENTS PROVIDED BY PHILLIPCAPITAL FORMING THIS APPLICATION AND AGREEMENT

By completing and executing this Account Application, we declare and acknowledge that we have read, understood, agree and accept the information and terms and conditions in the Agreement including the following applicable documents which form part of this Agreement:

DOCUMENTS YOU ARE TO SIGN AND RETURN OR (OTHERWISE PROVIDE) WITH THIS APPLICATION

ATTACHMENT A

If you elected the products and/or services in this Application below, please sign and/or return the applicable documents from this list:

DOCUMENTS YOU ARE TO READ AND RETAIN

ATTACHMENT B

If you have elected the products and/or services below, your acknowledgement refers to the terms and conditions and information in the documents listed below :

Attachment A	Attachment B
All Applicants - All Products	
	PhillipCapital Financial Services Guide PhillipCapital Privacy Policy Pershing Financial Services Guide Pershing Disclosure Statement *These 4 documents were provided to you with your Equities Account Application*
Direct Debit /Credit in Section 4A	
Pershing Direct Debit / Credit Authority*	Pershing Direct Debit/Credit Terms and Conditions in the Authority* (a)
Income Direction of Dividends in Section 4D	
Income Direction Form (if the bank account is different to the account for Direct Debit/Credit)	
CHESS Sponsorship with PhillipCapital in Section 5A	
PhillipCapital CHESS Sponsorship Agreement*	PhillipCapital CHESS Sponsorship Agreement Terms and Conditions (a)* ASX CHESS brochure (b)*
Transfer your CHESS Sponsored Holdings to PhillipCapital in Section 5B	
Request for Change in Sponsoring Broker form*	Request for Change in Sponsoring Broker* And (a) and (b) above*
Transfer Issuer Sponsored Holdings to CHESS Sponsored with PhillipCapital in Section 5C	
Issuer Sponsored Holdings Statements for each holding	(a) and (b) above*
Appointing a person to administer your account in Section 7 *(mandatory for clients referred by a Financial Planner)*	
Appointment of Third Party	
Trade in Warrants in Section 8	
Warrant Agreement Form Terms and Conditions*	Warrant Agreement Terms and Conditions* ASX Understanding Trading and Investing in Warrants brochure* Chi-X Investing in Warrants brochure*
Trade in ASX Exchange Traded Options in Section 8	
Registered Holder Collateral Cover Authorisation Broker to Broker Transfer Authority form - Options	PhillipCapital ETO Product Disclosure Statement* PhillipCapital Terms and Conditions - Derivatives* Pershing Derivatives Client Agreement* ASX Understanding Options brochure*

*** Mandatory for Derivatives**

SECTION 11 - ACKNOWLEDGEMENT TO THE AGREEMENT

It is important that you consider this section carefully and ensure that you have understood the implications of the Agreement.

11.1 Connection with a Market Participant

☐ *Tick here* if any applicant or authorised third party or other person named in this application is an employee, Director, Responsible Manager, Responsible Executive, Authorised Representative or otherwise employed by or connected to a Market Participant.

A Market Participant is restricted from dealing with connected to another Market Participant.

If ***YES*** please provide details:

11.2 I / We declare and acknowledge that:

- i The information I/we have provided in this Application is accurate and true and that I/we will promptly provide in writing any changes to the information including our tax residency and tax status.
- ii I/we understand that any funds and/or assets placed or subsequently provided by me/us from time to time will at all times comply with all laws to which we are subject, including but without limitation to all tax laws and regulations including FATCA and AML/CTF Act.
- iii If I/we have elected to deal in Derivatives including warrants and exchange traded options, I/we will only receive General Advice or the transaction will be executed on a no advice basis.
- iv If I/we have elected to deal in Derivatives, I/we understand the nature of these products, the rights and obligations incurred, and the extent of exposure to risk involved in dealing in Derivative products.
- v If I/We change our status from Retail Client to Wholesale client by providing a Corporations Act 2001, Section 708 Notice to PhillipCapital, we will not rely on advice or information from a PhillipCapital adviser and will make our own decisions in relation to investments and related actions.
- vi If I/we are a client referred by an Intermediary/Financial Planner to PhillipCapital, we will not provide you with Personal Advice.
- vii I/we understand that General Advice will be given without consideration of your investment objectives, financial situation or particular needs. Before making an investment decision on the basis of General Advice, you need to consider the appropriateness of the advice having regard to your investment objectives financial situation and needs.
- viii I/we understand that all trades are executed by Phillip Capital Limited (PhillipCapital) and cleared and settled by Pershing Securities Australia Pty Ltd (Pershing).
- ix I/we understand that we must provide true certified copies of personal identification documents.
- x By completing and executing this Account Application, I/we declare and acknowledge that I/we have read, understood, accepted and agree to the information and terms and conditions in the Agreement including the documents and agreements applicable to the products and services that I/we have elected in this Application as listed in Section 10 and I/we further agree that the documents and agreements applicable form part of this Agreement:

SECTION 13 - EXECUTION

EXECUTED AS AN AGREEMENT

I/we hereby confirm that I/we am/are authorised to execute this Agreement and I/we affirm that the Acknowledgements and Declarations given in the Agreement are true and correct.

Each applicant must sign this section before a witness

Applicant 1	**Applicant 2**	**Applicant 3**
Signature	Signature	Signature
Print Name	Print Name	Print Name
Witness Signature	Witness Signature	Witness Signature
Witness Name	Witness Name	Witness Name
Date		

Please ensure that you have attached all applicable documents completed and signed.

Contact Details

Phillip Capital Limited ("PhillipCapital")

ABN	14 002 918 247
AFSL	246827
Toll Free Number	**1800 214 268**
Facsimile	**+61 3 8633 9899**
E-mail	securities@phillipcapital.com.au
Website	**www.phillipcapital.com.au**

MELBOURNE

Level 10, 330 Collins Street, Melbourne VIC 3000

Telephone **+61 3 8633 9800**

SYDNEY

Level 9, 56 Pitt Street, Sydney NSW 2000

Telephone **+61 2 9233 9611**

ADELAIDE

Level 1, 16 Vardon Avenue, Adelaide SA 5000

Telephone **+61 8 7202 1100**

QUEENSLAND

Level 12, Niecon Tower, 17 Victoria Avenue Broadbeach QLD 4218

Telephone **+61 7 3149 8629**

To be completed by PhillipCapital Internal Office Use Only

Adviser to Complete

Adviser code: HIN: Brokerage Rate:

Products to set up

☐ Warrants ☐ Exchange Traded Options

Operations to indicate tasks completed

☐ Validation of certified ID documents ☐ Validation of AML/PEP screening ☐ ASIC /ATO ABN Lookup - companies/trusts

☐ Sponsorship verification

Date entered: Entered by: Checked by:

Derivatives - ETOs
Adviser: T/P collateral form approved by Operations.

Supplementary Account Application

For Derivatives

Attachment A
Documents to sign & return

PhillipCapital
Your Partner In Finance

DOCUMENTS YOU ARE TO SIGN AND RETURN OR (OTHERWISE PROVIDE) WITH THIS APPLICATION

ATTACHMENT A

If you elected the products and/or services in this Application below, please sign and/or return the documents which have been executed and/or witnessed/certified as applicable from this list:

Direct Debit /Credit in Section 4A

Pershing Direct Debit / Credit Authority*

Income Direction of Dividends in Section 4D

Income Direction Form (if the bank account is different to the account for Direct Debit/Credit)

CHESS Sponsorship with PhillipCapital in Section 5A

PhillipCapital CHESS Sponsorship Agreement*- execution of the Account Application Agreement confirms execution of the CHESS Sponsorship Agreement

Transfer your CHESS Sponsored Holdings to PhillipCapital in Section 5B

Request for Change in Sponsoring Broker form*

Transfer Issuer Sponsored Holdings to CHESS Sponsored with PhillipCapital in Section 5C

Issuer Sponsored Holdings Statements for each holding

Appointing a person to administer your account in Section 7 ***(mandatory for clients referred by a Financial Planner)***

Appointment of Third Party

Trade in Warrants in Section 8

Warrant Agreement Form Terms and Conditions*

Trade in ASX Exchange Traded Options in Section 8

Registered Holder Collateral Cover Authorisation

Broker to Broker Transfer Authority form - Options

*** Mandatory for Derivatives**

Important:

Please refer to the applicable documents in your Equities Account Pack at Attachment B

Pershing®
A BNY MELLON COMPANY

PERSHING SECURITIES AUSTRALIA PTY LTD (PERSHING)

ABN 60 136 184 962 AFSL No 338264

DIRECT DEBIT / CREDIT AUTHORITY FORM

Client Account Name:	
Client Account Number:	

For Direct Debits all bank account holders must sign this section.

Default/Nominated Bank Account The Applicant authorises Pershing to directly credit/debit* the Nominated Bank Account

*Please tick applicable box: ☐ **Credit** ☐ **Debit** ☐ **Both**

Financial Institution Name:			
Account Name			
BSB		Account Number	

Non Default/Nominated Bank Account The Applicant authorises Pershing to directly credit/debit* the Nominated Bank Account

*Please tick applicable box: ☐ **Credit** ☐ **Debit** ☐ **Both**

Financial Institution Name:			
Account Name			
BSB		Account Number	

CLIENTS TO COMPLETE

Individual / Director (1): Full name	Signature	Date
		/ /

Individual / Director (2) / Secretary: Full name	Signature	Date
		/ /

Individual / Director (3) / Secretary: Full name	Signature	Date
		/ /

If client is a Company, please indicate which office held:

☐ Sole Director / Sole Secretary

☐ Two or more directors – (two or more directors must sign)

DECLARATION

If you have elected to authorise Pershing to direct debit your Nominated Bank Account and by signing this Direct Debit/ /Credit Authority Form, you agree to be bound by the Direct Debit Terms and Conditions and the Direct Debit Request Service Agreement.

PERSHING SECURITIES AUSTRALIA PTY LTD (PERSHING)

ABN 60 136 184 962 AFSL No 338264

DIRECT DEBIT TERMS AND CONDITIONS

If you complete Pershing's Direct Debit / Credit Authority Form and sign the form in the manner required, you:

(a) request and authorise Pershing (Debit User Identification number 227738) to arrange for any amount which you owe to Pershing from time to time to be debited through the Bulk Electronic Clearing System and paid to Pershing from the account you have nominated in the Application Form;

(b) authorise Pershing to debit in accordance with the Direct Debit Agreement the account nominated by you in the Application Form with any amount Pershing may debit or charge you; and

(c) acknowledge having read and understood, and agree to be bound by, the terms in the Direct Debit Agreement below.

DIRECT DEBIT REQUEST SERVICE AGREEMENT

1. DEFINITIONS

In this Direct Debit Agreement:

Account means the account identified as the direct debit account in the Direct Debit / Credit Authority Form, but only if that account is held with a Financial Institution.

Banking day means a day other than a Saturday or a Sunday or a public holiday listed throughout Australia, or where there is a public holiday simultaneously in Victoria and New South Wales.

Debit Day means the day that payment is due from you to Pershing.

Debit Payment means a particular transaction where a debit is made.

Direct Debit means the direct debit request which you make to Pershing by completing the Direct Debit / Credit Authority Form and signing the Application Form.

Financial Institution means a financial institution with whom Pershing has a direct debit facility arrangement. Please contact your adviser to check whether Pershing has a direct debit facility arrangement with Your Financial Institution.

Your Financial Institution means the Financial Institution at which the Account is kept.

2. DEBITING THE CLIENT'S ACCOUNT

2.1 By completing the Direct Debit / Credit Authority Form and signing in the manner prescribed, you authorise Pershing to arrange for funds to be debited from the Account and you warrant and represent that you are duly authorised to request the debiting of payments from the nominated bank account.

2.2 Pershing will only arrange for funds to be debited from the Account as authorised in the direct debit request.

2.3 If the Debit Day falls on a day that is not a Banking day, Pershing may direct Your Financial Institution to debit the account on the following Banking day. If you are unsure about the day on which the Account has or will be debited, you should ask Your Financial Institution.

3. YOUR OBLIGATIONS

3.1 It is your responsibility to ensure that there are sufficient clear funds available in the Account to allow a Debit Payment to be made in accordance with the Direct Debit Request.

3.2 If there are insufficient funds in the Account to meet a Debit Payment:

- (a) you may be charged a fee and/or interest by Your Financial Institution;
- (b) you may also incur fees or charges imposed or incurred by Pershing; and
- (c) you must arrange for the Debit Payment to be made by another method or arrange for sufficient clear funds to be in the Account by an agreed time so that Pershing can process the Debit Payment.

3.3 You should check the Account statement to verify that the amounts debited from the Account are correct.

3.4 If Pershing is liable to pay Goods and Services Tax (**GST**) on a supply made in connection with this agreement, then you agree to pay Pershing on demand an additional amount equal to the consideration payable for the supply multiplied by the prevailing GST rate.

4. CHANGES

4.1 You may request deferment of, or alteration to, suspension of these direct debit arrangements or stop any debit item by providing signed written instructions to your financial adviser.

4.2 You may also cancel your authority for Pershing to debit the Account by providing notice to your financial adviser.

4.3 Pershing may make changes or terminate these arrangements at any time by giving 14 days notice in writing to you.

5. DISPUTE

5.1 If you believe that there has been an error in debiting the Account, you should notify Pershing directly on (02) 8999 4000 and confirm that notice in writing as soon as possible by faxing to (02) 8999 4099 or posting to GPO Box 5343, Sydney NSW 2001.

5.2 If Pershing concludes as a result of our investigations that the Account has been incorrectly debited Pershing will arrange for Your Financial Institution to adjust the Account accordingly. Pershing will also notify you in writing of the amount by which the Account has been adjusted.

5.3 If Pershing concludes as a result of our investigations that the Account has not been incorrectly debited Pershing will provide you with reasons and any evidence for this finding.

5.4 Any queries about an error made in debiting the Account should be directed to Pershing in the first instance (and not to Your Financial Institution) so that Pershing can attempt to resolve the matter with you. If the matter cannot be resolved in this manner Pershing may refer it to Your Financial Institution which will obtain details from you of the disputed transaction.

6. ACCOUNTS

Pershing recommends that you:

- (a) confirm with Your Financial Institution whether direct debiting through the Bulk Electronic Clearing System (BECS) is available from the Account as direct debiting may not be available on all accounts offered by Your Financial Institution; and
- (b) check that the Account details provided to Pershing are correct by checking them against a recent Account statement. If unsure, you should check with your Financial Institution before completing the Direct Debit Request.

7. CONFIDENTIALITY

7.1 Pershing will keep any information (including Account details) in your Direct Debit confidential.

7.2 Pershing will only disclose information that it has about you:

- (a) to the extent specifically required by law; or
- (b) for the purposes of this Direct Debit Agreement (including disclosing information in connection with any query or claim); or
- (c) as permitted by the Terms.

8. GOVERNING LAW

These terms are governed by the laws in force in New South Wales.

Phillip Capital Limited
ABN 14 002 918 247 AFSL No. 246827
Participant of the ASX and Chi-X Australia

This form will direct the respective issuers to deposit your cash dividends and distributions electronically to a nominated bank account

Account Name:	
Account Number:	
Holder Identification No (HIN):	

AUTHORISATION

I/we will be CHESS Sponsored by Phillip Capital Limited (PhillipCapital) and I/we authorise CHESS and Phillip Capital Limited to severally advise the relevant issuer or its nominee to pay by direct credit to the Nominated Bank Account (as specified below) all cash dividends, distributions, interest or income payable referable to my/our HIN (as specified above).
By completing this form, whenever you purchase financial products which are CHESS sponsored by PhillipCapital, PhillipCapital will give your banking details via CHESS to the issuer's share registry. This instruction will override all previous instructions you may have given PhillipCapital or the relevant issuer. This instruction only applies to holdings sponsored by Phillip Capital Limited in CHESS.

All cash dividends paid for financial products held under your HIN will be directed into the Nominated Bank Account supplied below. Note that by providing this instruction, it may override your participation in any existing Dividend Reinvestment Plans (**DRP**) or Bonus Share Plans. There are also no guarantees that all share registries will accept these instructions from Phillip Capital Limited.

Contact the Issuer directly for non CHESS holdings.

Financial Institution Name:

Account Name:

BSB Number: ***Account Number:***

1. Individual or Joint Account – where the account is held in joint names all signatories must sign

Individual 1:
Given Name(s) in full
Signature *Date:*

Individual 2:
Given Name(s) in full
Signature *Date:*

2. Companies

Authorised Signatory 1:
Name and Title
Signature *Date:*

Authorised Signatory 2:
Name and Title
Signature *Date:*

Important: Please ensure that you provide the correct banking details. Please note any changes to banking details must be notified immediately to Phillip Capital Limited. If you fail to (a) provide correct banking details or (b) immediately notify Phillip Capital Limited of changes to banking details, we may not be able to provide you with the services that you require and accept no responsibility or liability for any resulting loss, liability, cost or expense.

Change in Sponsoring Broker

Phillip Capital Limited

AFSL No. 246827 - ABN 14 002 918 247

PhillipCapital
Your Partner In Finance

Client Details

Name

Account designation

Address

Unit Street number

Street name

Suburb Postcode

State Country

☐ Please transfer all my/our Chess holdings including my/our HIN.

☐ Please transfer the following holdings listed below.

Securities	Quantity

Existing sponsorship broker

Existing PID Existing HIN

New Sponsoring Broker

Phillip Capital Limited PID 2924
Melbourne Office:
Level 10, 330 Collins Street
Melbourne VIC 3000

Signature of person(s) requesting transfer

Please note: All joint holders must sign. If signed by other than the shareholder, please supply a Certified copy of the Power of Attorney if not noted already.

✘	✘	✘
Signature	Signature	Signature
Print name	Print name	Print name
Date	Date	Date

APPOINTMENT OF THIRD PARTY

PhillipCapital
Your Partner In Finance

By authorising a Third Party to act for your Phillip Capital Limited and Phillip Capital Trading Pty Ltd account (together "PhillipCapital"), eg. spouse, partner, accountant, financial planner, you agree that PhillipCapital may discuss your account with that person/s and may take instructions for the purchase and sale of securities from and provide Confirmations of trade to that person as well as entering into other related administrative actions and all matters required to manage the account including transfer of holdings to and from the account holder's HIN andSRN. All accounts you open with PhillipCapital ***must have separate Authority.***

AFSL Third Party: An Intermediary/Financial Planner referring this client must have executed the ***"Intermediary Agreement for the provision of financial and stockbroking Services"***.

If you require a Power of Attorney, please seek your own legal advice.

NAME OF ACCOUNT APPOINTING THIRD PARTY

Full Name

(Individual or, if a company include the registration number - ABN. If a Trust include the Trust and Trustee name.

Full Name

Full Name

ABN / Registration Number for Company

AUTHORISED THIRD PARTY DETAILS

Title ☐ Dr. ☐ Mr. ☐ Mrs. ☐ Miss ☐ Ms ☐ Other

Full Name

Address of Third Party

OR Company Registered Office *Street Number & Name* *Suburb* *State* *Country* *Postcode*

Country/ies of Citizenship
OR Company- Jurisdiction and Name of Regulator

Place & Country of Birth
OR Country of Company Registration

Date of Birth
OR Company - date of Registration

CONTACT DETAILS IF THIRD PARTY IS A COMPANY

☐ *Tick here* if the Third Party is a company who is authorising its employee/s listed below to act for the account:

Name	Email	Phone	Signature
Name	Email	Phone	Signature
Name	Email	Phone	Signature

☐ *Tick here* if the Third Party is to be emailed a copy of trading Confirmations for the account

If ***YES*** provide email address for Third party Email

A Politically Exposed Persons (PEP) and Foreign Residents ***(Company to provide the declaration for ALL directors separately)***

☐ *Tick here* if the Authorised Third Party or if a company - its directors, spouses, associates and as defined in **Annexure 1 is PEP,**

If ***YES*** provide details of the role and Government body

A person who is a **PEP and/or a foreign resident** - is to complete the **PEP Declaration** - ***Source of Wealth form in Attachment A***

B Tax Residency ***(Company to provide tax status for the Company below and a declaration for ALL directors separately)***

Indicate below for Authorised Third Party or, if a company - each of its directors, spouses, associates and as defined in **Annexure 1.** are to confirm:

☐ *Tick here* is an **Australian Tax Resident** and provide your **TFN** or **exemption**

☐ *Tick here* is **NOT an Australian Tax Resident** you must complete the ***FATCA Acknowledgement and Declaration*** form

☐ *Tick here* is a **US citizen/entity or US tax resident**, before you proceed further, contact a PhillipCapital Adviser or consult with your tax adviser.

Signature/s of Authorised Third Party

Signature of individual or director of company
Name of Signatory

Signature of director / secretary of company
Name of Signatory

Signature/s for the Account appointing the Third Party

Applicant 1 appointing Third Party

Applicant 2 appointing Third Party

Applicant 3 appointing Third Party

Signature
Individual/Director/Sole Director for Account

Signature
Individual/Director/Secretary for account

Signature
Individual for account

PhillipCapital Admin: Account Number:

All accounts must have a separate individual Authority

PhillipCapital
Your Partner In Finance

WARRANT CLIENT AGREEMENT

Please complete this form and return to Phillip Capital Limited and you may then trade in ASX or Chi-X Warrants

I / We

(full names of applicants, individual or company)

of

(address)

Account number

hereby declare that:

1. I/We have received and read the explanatory booklets issued by ASX Limited (ASX) and Chi-X Australia Pty Ltd (Chi-X) in respect to Warrants.
2. I/We understand that neither Australian Options Market nor ASX Clear Pty Ltd have any involvement whatsoever with Warrants.
3. I/We am/are aware that a Warrant has a limited life and cannot be traded after its expiry date.
4. I/We am/are aware that Warrants do not have standardised Terms of Issue and acknowledge that it is my responsibility to become aware of the Terms of Issue of any Warrant in which I choose to invest.
5. I/we am/are aware that Warrants may be subject to adjustments after their initial issue. I acknowledge that it is my responsibility to become aware of any adjustments which may have been made to any Warrant in which I choose to invest.
6. I/We am/are aware that admission to Trading Status of a Warrant does not imply that the ASX or Chi-X or the Securities Exchanges Guarantee Corporation Limited gives any guarantee or warranty of the viability or the Warrant-Issuer or Guarantor.
7. I/We acknowledge that failure of the Warrant-Issuer or the Guarantor (if applicable) to fulfill their obligations does not give rise to a claim against the ASX, Chi-X, handling Participating Organisations or the Securities Exchange Guarantee Corporation Limited.

Client	**Client**
✘	✘
Signature	Signature
Print name	Print name
Date	Date

Please forward the original signed Agreement

Phillip Capital Limited
ABN 14 002 918 247 AFSL 246827
Level 10 330 Collins Street Melbourne Vic 3000
PO Box 628 Collins Street West VIC 8007
Telephone +61 3 8633 9818
Facsimile +61 3 8633 9899
Email settlements@phillipcapital.com.au
Website www.phillipcapital.com.au

REGISTERED HOLDER COLLATERAL COVER AUTHORISATION

Client Numbers covered by this Authorisation:			
Account No:		Account No:	

1. I/We

   (insert name of Registered Holder/s) (**Registered Holder)**

   with Holder Identification Number

   authorise my Controlling Participant, to reserve (or withdraw) Financial Products (**Collateral**) registered in the name of the Registered Holder in the ASX Clear Pty Ltd, ABN 48 001 314 503 (**ASX Clear**) Subposition as Collateral Cover for obligations in respect of Options Market Contracts registered in the Client Accounts nominated above with **Pershing Securities Australia Pty Ltd** ABN 60 136 184 962 AFSL No. 338264

2. The Registered Holder acknowledges that ASX Clear may, in its absolute discretion, decline to accept in relation to all or any particular Client Account nominated above[1] for the purposes of accepting paperless lodgements.

3. The Registered Holder acknowledges that on behalf of the Registered Holder, the Controlling Participant will reserve (or withdraw) Collateral in the ASX Clear Subposition by sending the appropriate Collateral lodgement message so that the Collateral lodged comes under the control of ASX Clear, or Collateral withdrawn leaves the control of ASX Clear, in accordance with the ASX Clear Operating Rules and Procedures (as amended from time to time).

4. In registering Collateral in the ASX Clear Subposition, the Registered Holder acknowledges that the Collateral will be subject to a fixed charge (**Charge**) in favour of ASX Clear from the time they are reserved to the ASX Clear Subposition in the manner referred to above, and will remain subject to the Charge until ASX Clear permits it to be withdrawn from the ASX Clear Subposition.

5. The Registered Holder acknowledges that the Charge secures all amounts and obligations owing by the ASX Clear Participant to ASX Clear in connection with the Client Accounts nominated above[1] opened by the ASX Clear Participant in accordance with the ASX Clear Operating Rules and Procedures (as amended from time to time).

6. The Registered Holder acknowledges that the Registered Holder has read and understood the ASX Clear Operating Rules and the ASX Settlement Operating Rules, insofar as those rules relate to the Collateral and the Charge, including:

   (a) ASX Clear's power to deal with the Collateral on default by the ASX Clear Controlling Participant in respect of the Client Accounts nominated above; and

   (b) in particular, ASX Clear's power of sale in relation to the Collateral without any notice to the Registered Holder.

7. The Registered Holder warrants that unless ASX Clear otherwise agrees in writing, the Collateral is not and may not be subject to any other security interest, other than a security interest provided to a margin lender under a deed of priority, entered into between ASX Clear and the margin lender, which provides that ASX Clear's Charge has priority over the margin lender's security interest (**Deed of Priority**) or a security interest as permitted under the ASX Clear Operating Rules or the ASX Settlement Rules.

8. If the Registered Holder's Controlling Participant named in this Authorisation is a margin lender the Registered Holder warrants that they have signed an acknowledgement regarding the Deed of Priority as set out in Schedule 2 or Schedule 3, as applicable, to the Deed of Priority.

9. If the ASX Clear Participant is unable to insert the Account Numbers and/or HIN at the time the Register Holder signs this form the Registered Holder irrevocably authorises the ASX Clear Participant to insert the Account Numbers and/or HIN on this agreement and agrees the ASX Clear Participant will insert the Account Numbers and/or HIN on the Registered Holder's behalf, prior to lodging this Authorisation with ASX Clear. The ASX Clear Participant agrees that it will notify the Registered Holder of the Account Numbers and/or HIN in writing as soon as reasonably possible.

10. Defined terms have the same meaning as defined in the ASX Clear Operating Rules or the ASX Settlement Operating Rules and Procedures (as amended from time to time).

Registered Holder 1:			/ /
	Signature	Name	Date
Registered Holder 2:			/ /
	Signature	Name	Date
Witness			/ /
	Signature	Name	Date

BROKER TO BROKER TRANSFER AUTHORITY FORM - OPTIONS

Please complete this form if you wish to transfer Options Positions from another Broker to Pershing Securities Australia Pty Ltd (**Pershing**).

Important: PLEASE ATTACH A COPY OF YOUR LATEST POSITION STATEMENT

1. ACCOUNT DETAILS

Name in which account is held with PhillipCapital / Pershing	**Account Number**

(Internal Use Only)

2. EXISTING BROKER DETAILS (Transferring Broker)

For your transfer to be successful, your registration details (i.e. your name and address) on this form must agree with the details on your account with PhillipCapital / Pershing. If not, you will need to advise your existing Broker of any changes before we can process this transfer.

Registered name and address as recorded on your latest Statement

Account Designation or Trust (if applicable) eg: <X&Y Superfund A/C>

Name of existing broker

Account Number	**Holder Identification Number (HIN)**	**Broker PID**

Please select one option:

☐ Please transfer ALL Options from existing broker to Pershing (PID 1791); **or**

☐ Please transfer only those positions shown in the attached statement /confirmation note from existing broker to Pershing (PID 1791); **or**

☐ Please transfer only those positions listed below from existing broker to Pershing (PID 1791)

Option Positions to be transferred

Call / Put, Expiry Month, Strike	**Quantity**	**Trade Price**

Attach a separate sheet if additional option positions are required to be transferred

<u>Agreement:</u>

I/we authorise Pershing to transfer the existing Options Positions as detailed above to my/our PhillipCapital / Pershing account

Signature of Account Holders Requesting Transfer*:

Full name	Signature	Date
		/ /

Full name	Signature	Date
		/ /

Full name	Signature	Date
		/ /

*ALL ACCOUNT HOLDERS MUST SIGN. FOR COMPANY ACCOUNTS, EACH DIRECTOR / SECRETARY MUST SIGN

Contact Details

Phillip Capital Limited ("PhillipCapital")

ABN	14 002 918 247
AFSL	246827
Toll Free Number	**1800 214 268**
Facsimile	**+612 3 8633 9899**
E-mail	securities@phillipcapital.com.au
Website	**www.phillipcapital.com.au**

MELBOURNE

Level 10, 330 Collins Street, Melbourne VIC 3000

Telephone **+61 3 8633 9800**

SYDNEY

Level 9, 56 Pitt Street, Sydney NSW 2000

Telephone **+61 2 9233 9611**

ADELAIDE

Level 1, 16 Vardon Avenue, Adelaide SA 5000

Telephone **+61 8 7202 1100**

QUEENSLAND

Level 12, Niecon Tower, 17 Victoria Avenue Broadbeach QLD 4218

Telephone **+61 7 3149 8629**

Supplementary Account Application

For Derivatives

Attachment B
Documents to read & retain

PhillipCapital
Your Partner In Finance

SECTION 10 - DOCUMENTS PROVIDED BY PHILLIPCAPITAL FORMING THIS APPLICATION AND AGREEMENT

By completing and executing this Account Application, we declare and acknowledge that we have read, understood, agree and accept the information and terms and conditions in the Agreement including the following applicable documents which form part of this Agreement:

DOCUMENTS YOU ARE TO READ AND RETAIN

ATTACHMENT B

If you have elected the products and/or services below, your acknowledgement refers to the terms and conditions and information in the documents listed below :

Direct Debit /Credit in Section 4A

Pershing Direct Debit/Credit Terms and Conditions in the Authority*

CHESS Sponsorship with PhillipCapital in Section 5A

PhillipCapital CHESS Sponsorship Agreement Terms and Conditions (a)*

ASX CHESS brochure (b)*

Transfer your CHESS Sponsored Holdings to PhillipCapital in Section 5B

And (a) and (b) above*

Transfer Issuer Sponsored Holdings to CHESS Sponsored with PhillipCapital in Section 5C

(a) and (b) above*

Trade in Warrants in Section 8

Warrant Agreement Terms and Conditions*

ASX Understanding Trading and Investing in Warrants brochure*

Chi-X Investing in Warrants brochure*

Trade in ASX Exchange Traded Options in Section 8

PhillipCapital ETO Product Disclosure Statement*

PhillipCapital Terms and Conditions - Derivatives*

Pershing Derivatives Client Agreement*

ASX Understanding Options brochure*

*** Mandatory for Derivatives**

Important:
Please refer to the applicable documents in your Equities Account Pack at Attachment B

CHESS SPONSORSHIP AGREEMENT

PhillipCapital
Your Partner In Finance

Terms & Conditions

1. INTERPRETATION

1.1 Any term used in this Agreement which is defined in the ASX Settlement Operating Rules has the meaning given in the Rules.

2. MANDATORY PROVISIONS

2.1 Participant Rights

2.1.1 Where the Participant Sponsored Holder authorises the Participant to buy Financial Products, the Participant Sponsored Holder will pay for those financial products within three Business Days of the date of purchase.

2.1.2 Subject to Clause 2.1.3, the Participant is not obliged to Transfer Financial Products into the Participant Sponsored Holding, where payment for those Financial Products has not been received, until payment is received.

2.1.3 Where a contract for the purchase of Financial Products remains unpaid, after the Participant has made a demand of the Participant Sponsored Holder to pay for the Financial Products, the Participant may sell those Financial Products that are the subject of that contract at the Participant Sponsored Holder's risk and expense and that expense will include brokerage and stamp duty.

2.1.4 Where the Participant claims that an amount lawfully owed to it has not been paid by the Participant Sponsored Holder, the Participant has the right to refuse to comply with the Participant Sponsored Holder's Withdrawal Instructions, but only to the extent necessary to retain financial products of the minimum value held in a Participant Sponsored Holding (where the minimum value is equal to 120% of the current market value of the amount claimed).

2.2 Participant Sponsored Holder's Rights

2.2.1 Subject to Clauses 2.1.3 and 2.1.4, the Participant will initiate any Transfer, Conversion or other action necessary to give effect two (2) Business Days of the date of the receipt of the Withdrawal Instructions.

2.2.2 The Participant will not initiate any Transfer or Conversion into or out of the Participant Sponsored Holding without the express authority of the Participant Sponsored Holder.

2.2.3 Phillip Capital Limited is a holder of an Australian Financial Services Licence under the Corporations Act 2001 which is regulated by the Australian Securities and Investments Commission ("ASIC"). As a Market Participant of ASX Group Ltd ("ASX"), Phillip Capital Limited is also bound by the ASX Market Operating Rules, ASX Settlement Operating Rules and the ASX Clear Operating Rules. The Participant Sponsored Holder can obtain information as to the status of Phillip Capital Limited from ASIC.

2.2.4 The Participant Sponsored Holder may lodge a complaint against Phillip Capital Limited or any claim for compensation with the Financial Ombudsman Service ("FOS"). The FOS toll free number is 1300 780 808.

3. OTHER RIGHTS AND DUTIE

3.1 Supply Of Information

3.1.1 The Participant Sponsored Holder will supply all information and supporting documentation which is reasonably required to permit the Participant to comply with the registration requirements, as are in force from time to time, under the ASX Settlement Operating Rules.

3.2 Exchange Traded Options, Pledging And Sub-Positions

3.2.1 Where the Participant Sponsored Holder arranges with ASX Clear to lodge Derivatives Cover in a Participant Sponsored Holding, and informs the Participant of the arrangement, the Participant Sponsored Holder authorises the Participant to take whatever action is reasonably required by ASX Clear in accordance with the Rules to give effect to that arrangement.

3.2.2 Where the Participant Sponsored Holder arranges with any person to give a charge or any other interest in financial products in a Participant Sponsored Holding, the Participant Sponsored Holder authorises the Participant to take whatever action is reasonably required by the person in accordance with the Rules to give effect to that arrangement.

3.2.3 The Participant Sponsored Holder acknowledges that where, in accordance with this Agreement and/or the Participant Sponsored Holder's instructions, the Participant initiates any action which has the effect of creating a sub-position over financial products in the Participant Sponsored Holding, the right of the Participant Sponsored Holder to transfer, convert or otherwise deal with those financial products is restricted in accordance with the terms of the Rules relating to sub-positions.

3.2.4 Nothing in this Agreement operates to override any interest of ASX Clear in the financial products.

3.3 Fees

3.3.1 The Participant Sponsored Holder will pay all Brokerage fees and associated transactional costs within the period prescribed by the Participant.

4. MANDATORY NOTIFICATIONS AND ACKNOWLEDGMENTS

4.1 The Participant Sponsored Holder acknowledges that if the Participant is not a Market Participant of an Approved Market Operator neither the Approved Market Operator nor any Related Party of an Approved Market Operator has any responsibility for regulating the relationship between the Participant Sponsored Holder and the Participant, other than in relation to the Rules relating to Sponsorship Agreements.

4.2 The Participant Sponsored Holder acknowledges that if a Transfer is taken to be effected by the Participant under Section 9 of the ASX Settlement Operating Rules and the Source Holding for the Transfer is a Participant Sponsored Holding under the Sponsorship Agreement, then: (a) the Participant Sponsored Holder may not assert or claim against ASX Settlement or the relevant Issuer that the Transfer was not effected by the Sponsoring Participant or that the Sponsoring Participant was not authorised by the Participant Sponsored Holder to effect the Transfer; and (b) unless the Transfer is also taken to have been effected by a Market Participant of ASX or a Clearing Participant of ASX Clear, the Participant Sponsored Holder has no claim arising out of the Transfer against the National Guarantee Fund under Part 7.5, Division 4 of the Corporations Regulations.

4.3 In the event that the Participant breaches any of the provisions of this Agreement, the Participant Sponsored Holder may refer that breach to any regulatory authority, including ASX Settlement.

4.4 In the event that the Participant is suspended from CHESS participation, subject to the assertion of an interest in Financial Products controlled by the Participant, or by the liquidator, receiver, administrator or trustee of that Participant: (a) the Participant Sponsored Holder has the right, within twenty (20) Business Days of ASX Settlement giving Notice of suspension, to give notice to ASX Settlement requesting that any Participant Sponsored Holdings be removed either: (i) from the CHESS Subregister; or (ii) from the control of the suspended Participant to the control of another Participant with whom they have concluded a valid Sponsorship Agreement pursuant to Rule 12.19.10; or (b) where the Participant Sponsored Holder does not give notice under Clause 4.4.(a), ASX Settlement may effect a change of Controlling Participant under Rule 12.19.11 and the Participant Sponsored Holder will be deemed to have entered into a new Sponsorship Agreement with the substitute Participant on the same terms as the existing Sponsorship Agreement. Where a Participant Sponsored Holder is deemed to have entered into a Sponsorship Agreement, the new Participant must enter into a Sponsorship Agreement with the Participant Sponsored Holder within ten (10) Business Days of the change of Controlling Participant.

4.5 The Participant Sponsored Holder acknowledges that before the Participant Sponsored Holder executed the Sponsorship Agreement, the Participant provided the Participant Sponsored Holder with an explanation of the effect of the Sponsorship Agreement and that the Participant Sponsored Holder understood the effect of the Sponsorship Agreement.

4.6 The Participant Sponsored Holder acknowledges that in the event of the death or bankruptcy of the Participant Sponsored Holder, a Holder Record Lock will be applied to all Participant Sponsored Holdings in accordance with the ASX Settlement Operating Rules, unless the Participant Sponsored Holder's legally appointed representative or trustee elects to remove the Participant Sponsored Holdings from the CHESS Subregister.

4.7 The Participant Sponsored Holder acknowledges that in the event of the death of the Participant Sponsored Holder, this Sponsorship Agreement is deemed to remain in operation, in respect of the legally appointed representative authorised to administer the Participant Sponsored Holder's estate, subject to the consent of the legally appointed representative, for a period of up to three calendar months after the removal of a Holder Record Lock applied pursuant to Clause 4.6.

FOR JOINT HOLDINGS ONLY

4.8 The Participant Sponsored Holder acknowledges that in the event of the death of one of the Holders, the Participant will transfer all Holdings under the joint Holder Record into new Holdings under a new Holder Record in the name of the surviving Participant Sponsored Holder/s, and that this Sponsorship Agreement will remain valid for the new Holdings under the new Holder Record.

4.9 The Participant Sponsored Holder acknowledges that in the event of the bankruptcy of one of the Holders the Participant will: (a) unless the legally appointed representative of the bankrupt Participant Sponsored Holder elects to remove the Participant Sponsored Holdings from the CHESS Subregister, establish a new Holder Record in the name of the bankrupt Participant Sponsored Holder, transfer the interest of the bankrupt Participant Sponsored Holder into new Holdings under the new Holder Record and request that ASX Settlement apply a Holder Record Lock to all Holdings under that Holder Record; and (b) establish a new Holder Record in the name(s) of the remaining Participant Sponsored Holder(s) and Transfer the interest of the remaining Participant Sponsored Holder(s) into new Holdings under the new Holder Record.

5. CHANGE OF CONTROLLING PARTICIPANT

5.1 If the Participant Sponsored Holder receives a Participant Change Notice from the Controlling Participant of the Participant Sponsored Holding and the Participant Change Notice was received at least 20 Business Days prior to the date proposed in the Participant Change Notice for the change of Controlling Participant, the Participant Sponsored Holder is under no obligation to agree to the change of Controlling Participant, and may choose to do any of the things set out in clauses 5.2 or 5.3.

5.2 The Participant Sponsored Holder may choose to terminate the Agreement by giving Withdrawal Instructions under the ASX Settlement Operating Rules to the Controlling Participant, indicating whether the Participant Sponsored Holder wishes to: (a) transfer its Participant Sponsored Holding to another Controlling Participant; or (b) transfer its Participant Sponsored Holding to one or more Issuer Sponsored Holdings.

5.3 If the Participant Sponsored Holder does not take any action to terminate the agreement in accordance with 5.2 above, and does not give any other instructions to the Controlling Participant which would indicate that the Participant Sponsored Holder does not agree to the change of Controlling Participant then, on the Effective Date, the Agreement will have been taken to be novated to the New Controlling Participant and will be binding on all parties as if, on the Effective Date: (a) the New Controlling Participant is a party to the Agreement in substitution for the Existing Controlling Participant; (b) any rights of the Existing Controlling Participant are transferred to the New Controlling Participant; and (c) the Existing Controlling Participant is released by the Participant Sponsored Holder from any obligations arising on or after the Effective Date.

5.4 The novation in clause 5.3 will not take effect until the Participant Sponsored Holder has received a notice from the New Controlling Participant confirming that the New Controlling Participant consents to acting as the Controlling Participant for the Participant Sponsored Holder. The Effective Date may as a result be later than the date set out in the Participant Change Notice.

5.5 The Participant Sponsored Holder will be taken to have consented to the events referred to in clause 5.4 by the doing of any act which is consistent with the novation of the Agreement to the New Controlling Participant (for example by giving an instruction to the New Controlling Participant), on or after the Effective Date, and such consent will be taken to be given as of the Effective Date.

5.6 The Agreement continues for the benefit of the Existing Controlling Participant in respect of any rights and obligations accruing before the Effective Date and, to the extent that any law or provision of any agreement makes the novation in clause 5.3 not binding or effective on the Effective Date, then the Agreement will continue for the benefit of the Existing Controlling Participant until such time as the novation is effective, and the Existing Controlling Participant will hold the benefit of the Agreement on trust for the New Controlling Participant.

5.7 Nothing in this clause 5 will prevent the completion of CHESS transactions by the Existing Controlling Participant where the obligation to complete those transactions arises before the Effective Date and the Agreement will continue to apply to the completion of those transactions, notwithstanding the novation of the Agreement to the New Controlling Participant under this clause 5.

6. CLAIMS FOR COMPENSATION

If a breach by the Sponsoring Participant of a provision of this Agreement falls within the circumstances specified in the compensation arrangements applicable to the Approved Market Operator or the Clearing Participant of ASX Clear under the Corporations Act and Corporations Regulations, a Participant Sponsored Holder make a claim under the relevant compensation arrangements.

7. TERMINATION

7.1 Subject to the ASX Settlement Operating Rules, this Agreement will be terminated upon the occurrence of any of the following events: (a) by notice in writing from either the Participant Sponsored Holder or the Participant to the other party to the Agreement; (b) upon the Participant becoming insolvent; (c) upon the termination or suspension of the Participant; or (d) upon the giving of Withdrawal Instructions by a Participant Sponsored Holder to a Controlling Participant in accordance with Rule 7.1.10(c).

7.2 Termination under Clause 7.1(a) will be effective upon receipt of Notice by the other party to the Agreement.

8. VARIATION

8.1 Should any of the provisions in this Agreement be inconsistent with the provisions in the ASX Settlement Operating Rules, the Participant will, by giving the Participant Sponsored Holder not less than 7 Business Days written Notice, vary the Agreement to the extent to which in the Participant's reasonable opinion is necessary to remove any inconsistency.

9. PERSHING FINANCIAL SERVICES TERMS OF SPONSORSHIP AGREEMENT

9.1 Phillip Capital Limited is a party to an Equities and Derivatives Clearing Agreement with Pershing Securities Australia Pty Ltd (Pershing). Pershing is obliged to settle as principal and has the settlement obligations for all ASX Transactions and Derivatives Contracts of Phillip Capital Limited and all ASX Transactions following the exercise of a Derivatives Contract (including the client's transactions);

9.2 Pershing will now administer the client's Participant Sponsored Holdings on behalf of Phillip Capital Limited but Phillip Capital Limited remains responsible to the Client for any actions or matters done or omitted to be done in respect of the client's Participant Sponsored Holdings;

9.3 Subject to the following 2 paragraphs, Phillip Capital Limited will initiate any Transfer, Conversion or other action necessary to give effect to Withdrawal Instructions within the Scheduled Time;

9.4 If Pershing demands that the Client pays for financial products but the contract for the purchase of those financial products, entered into on the client's behalf by Phillip Capital Limited, remains unpaid, Phillip Capital Limited may sell those financial products at the client's risk and expense (including any brokerage and stamp duty) and account to Pershing for the proceeds of the sale;

9.5 If the Client has not paid an amount to Pershing lawfully owed to Pershing, Phillip Capital Limited may refuse to comply with the client's Withdrawal Instructions (but only to the extent necessary to retain in the client's holding sponsored under the client's Sponsorship Agreement with Phillip Capital Limited, financial products with a value equal to 120% of the current market value of the amount claimed);

9.6 The Client must advise Phillip Capital Limited if:

(i) the client's details change;

(ii) the Client wishes to change its Controlling Participant under CHESS;

(iii) the Client becomes bankrupt;

(iv) the Client wishes to issue Withdrawal Instructions in relation to its sponsored holdings;

(v) the Client wishes to create Subpositions over its sponsored financial products;

(vi) the Client wishes to terminate its Sponsorship Agreement with the Correspondent;

(vii) the Client wishes to lodge financial products as Cover for open Derivatives Contracts written in the market for ASX Derivative Products conducted by ASX, and the Client must arrange for Phillip Capital Limited to be notified in the event of the client's death.

Contact Details

Phillip Capital Limited ("PhillipCapital")

ABN	14 002 918 247
AFSL	246827
Toll Free Number	**1800 214 268**
Facsimile	**+612 3 8633 9899**
E-mail	securities@phillipcapital.com.au
Website	**www.phillipcapital.com.au**

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SYDNEY
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ADELAIDE
Level 1, 16 Vardon Avenue, Adelaide SA 5000
Telephone **+61 8 7202 1100**

QUEENSLAND
Level 12, Neicon Tower, 17 Victoria Avenue Broadbeach QLD 4218
Telephone **+61 7 3149 8629**

CHESS

CLEARING HOUSE ELECTRONIC SUBREGISTER SYSTEM

ASX

Contents

What is CHESS?

If you buy or sell financial products such as shares in a listed company, you must exchange the title or legal ownership of those financial products for money. This exchange is called settlement.

For financial products traded on the Australian Securities Exchange, settlement is effected by a world-class computer system called CHESS, which stands for the Clearing House Electronic Subregister System.

CHESS is operated by the ASX Settlement Pty Limited (ASX Settlement), a wholly owned subsidiary of the ASX. ASX Settlement authorises participants such as brokers, custodians, institutional investors, settlement agents and so on to access CHESS and settle trades made by themselves or on behalf of their clients.

Usually, two business days after a buyer and seller agree to a trade, CHESS effects the settlement of that trade. It does this by transferring the title or legal ownership of the shares while simultaneously facilitating the transfer of money for those shares between participants via their respective banks. This type of settlement is called Delivery versus Payment (DvP). It is irrevocable.

In addition to performing settlement, CHESS electronically registers the title (ownership) of shares on its subregister. This registration is secure and is an efficient means for holders to register title of their shares if they intend to trade them.

In summary, CHESS performs two major functions for ASX.

- It facilitates the clearing and settlement of trades in shares, and
- It provides an electronic subregister for shares in listed companies.

CHESS performs these and other functions for a diverse range of financial products, including shares. To make it easier to read, this brochure talks about shares. However, most of what it says also applies to the other types of financial products approved for settlement via CHESS, including warrants, stapled securities, company issued options and units in trusts.

What benefits does CHESS offer investors?

CHESS benefits investors by providing a means of transferring and registering ownership of shares that is:

- secure
- efficient
- convenient
- seamless, and
- cost effective.

Do I have a choice of where I register title to my shares?

Yes. As a shareholder, you can choose to register the legal title to your shares on either the:

- CHESS subregister, maintained by ASX Settlement, or
- Issuer Sponsored subregister, maintained by the company who issued the shares. Most companies engage a share registry to administer their subregister on their behalf.

Registration in both subregisters is by electronic means. No paper certificates are issued for either subregister. However, a few foreign companies listed on the ASX may still offer paper certificates.

The principal register for any particular company is made up of the combined holdings registered on both the CHESS subregister and Issuer Sponsored subregister.

Irrespective of which subregister you use to hold shares, you will need to go through a stockbroker if you want to trade them.

How do I register my shares on the CHESS subregister?

To register your shares on the CHESS subregister, you arrange with an authorised participant (usually your stockbroker or their settlement agent) to sponsor you on CHESS. This 'CHESS Sponsor' will ask you to sign a sponsorship agreement that sets out the terms and conditions under which they can operate your holdings on the CHESS subregister on your behalf. This in no way changes your legal ownership of the shares.

CHESS shareholders are allocated a Holder Identification Number (commonly referred to as a HIN), which is similar in concept to a bank account number. Your HIN uniquely identifies you as the holder of shares on the CHESS subregister. Following your registration, ASX Settlement will send you a notification of your HIN. Keep this notification in a safe place as a record of your sponsor and your HIN. You should protect your HIN in the same way you protect your bank account number and not disclose it to anyone, unless required to do so in the normal course of business or by law.

If you wish, you may enter into a sponsorship agreement with more than one CHESS Sponsor. If you do, you will have a different HIN for each of your CHESS Sponsors.

How do I register my shares on the Issuer Sponsored subregister?

If you do not have a CHESS sponsorship agreement with your stockbroker or have not provided the stockbroker purchasing shares for you with a HIN, your shares will be registered on the Issuer Sponsored subregister by default.

You do not require a formal sponsorship agreement with a company to register your shares on their Issuer Sponsored subregister.

For each Issuer Sponsored holding, you will be allocated a unique Securityholder Reference Number (also known as an SRN) by the relevant issuer. Your SRN uniquely identifies your holding on the Issuer Sponsored subregister. Unlike a HIN, your SRN will not identify any holdings on the CHESS subregister. Also, unlike a HIN, you will have a different SRN for each holding.

Who controls the transfer or movement of shares?

If you hold your shares on the CHESS subregister then your CHESS Sponsor controls the transfer or movement of shares to or from your CHESS Sponsored holdings, but may only do so if following your specific instructions. This is explained in your sponsorship agreement.

If you hold your shares on the Issuer Sponsored subregister and want to sell them, your stockbroker must convert them to the CHESS subregister in order to settle the trade.
To facilitate this, you must provide your stockbroker with the relevant details, including the SRN.

In addition to movements initiated by stockbrokers on your instructions, the share registry may, from time to time, adjust your holding on either subregister. These adjustments are usually to effect corporate actions such as a company issuing bonus shares.

You will be notified of any changes to your share holdings by a holding statement mailed to your registered address. For shares on the CHESS subregister, this is done by ASX Settlement. For shares on the Issuer Sponsored subregister, this is done by the share registry of the relevant company.

What are the main differences between the CHESS subregister and the Issuer Sponsored subregister?

On the CHESS subregister you have only one HIN (for each CHESS Sponsor) that identifies all of your holdings in all of the companies you have invested in. As most shareholders have only one CHESS Sponsor, one HIN identifies their entire portfolio.

On the Issuer Sponsored subregisters, you have one SRN for each holding. If you have a portfolio of shares you will have a number of SRNs, one for each company you have invested in.

To hold shares on the CHESS subregister you must have a formal sponsorship agreement with a CHESS Sponsor. No formal agreement is required for you to hold shares on the Issuer Sponsored subregister.

To change your registration name, address, or notification of Tax File Number for your shares on the CHESS subregister, you need to contact only your CHESS Sponsor. For shares on the Issuer Sponsored subregister, you need to notify the share registry of each company in which you hold shares.

Should I hold my shares on the CHESS subregister or the Issuer Sponsored subregister?

If you hold your shares on the Issuer Sponsored subregister and wish to sell them, you must advise your stockbroker of the share registration details, including the SRN, so your stockbroker can convert the shares from the Issuer Sponsored subregister to the CHESS subregister in order to settle the trade. This conversion must be completed in time for settlement or else the stockbroker will incur a fee, which they may pass on to you. Currently the time to settle a trade is T+2 or trade date plus 2 business days.

If you hold your shares on the CHESS subregister and you wish to sell them, your CHESS Sponsor can move your shares for settlement without the need of a conversion. This is both easy and efficient.

Taking this into account, some of the factors you might consider when deciding which subregister to hold your shares on include:

- Issuer Sponsored shareholders may be inconvenienced by the need to communicate precise details of their holdings to their stockbrokers and bear the risk of incurring fees if a conversion from the Issuer Sponsored subregister is not completed in time for settlement;
- CHESS Sponsored shareholders enjoy hassle-free settlement and are not exposed to the risk of incurring fees arising from a failed settlement;
- Investors dealing with more than one stockbroker may experience settlement delays and possible fees when securities are transferred between different stockbrokers for settlement. Such investors may consider discussing these aspects further with their stockbrokers.

Are the shares I hold on the CHESS subregister safe?

Yes, your shares are safe for the following reasons:

- Transactions on a CHESS holding can only be effected by the CHESS Sponsor. By law your CHESS Sponsor may access your CHESS holding only when you have given them specific instructions to do so. Your CHESS Sponsor must authenticate your identity when you give them instructions. We suggest that you check that your stockbroker has adequate security measures in place to ensure that when you call they can verify your identity, for example by means of a password or PIN.
- The Corporations Act and the ASX Settlement Operating Rules regulate the actions of all ASX Settlement participants, such as stockbrokers, and what sort of transactions they can perform against the CHESS subregister.
- ASX audits ASX Settlement participants to ensure they comply with ASX Settlement Operating Rules and relevant legislation.
- ASX Settlement notifies you by mail of any change to your holdings on the CHESS subregister. To maximise the security of your holdings, make sure you register them using your direct address rather than an address 'care of' an intermediary, thus ensuring you receive all such notices directly.
- Your CHESS Sponsor must keep an electronic audit trail of all movements in your CHESS holding.
- ASX Settlement has implemented a range of security measures to minimise unauthorised access to CHESS, including message encryption and the limiting of each CHESS user's access to a specific and secure telecommunications line.

Are there protections against loss?

Yes. The National Guarantee Fund (NGF) is a compensation fund that covers losses in certain categories related to activities of ASX Market Participants, such as failure to complete a transaction, the unauthorised transfer of securities or failure to deal with property entrusted to the Market Participant where the Participant becomes insolvent. Compensation is not available for losses arising from normal trading. For more information about the NGF and the specific events it is legislated to cover, see the website of the fund's trustee (www.segc.com.au).

When will I receive CHESS Holding Statements?

ASX Settlement issues CHESS Holding Statements at the end of each month in which a transaction has occurred for a particular holding.

A CHESS Holding Statement shows the opening and closing holding balances of the holding for the statement period as well as listing any CHESS transactions that have occurred.

Statements are issued directly by ASX Settlement on behalf of each company. Separate statements are issued for each security. A statement is only issued when there has been a transaction during the month.

ASX Settlement does not issue routine CHESS Holding Statements for holdings of renounceable rights. However, a transaction statement for these securities may be provided if you request it through your CHESS Sponsor or the share registry.

You can request a CHESS Holding Statement at any time through your CHESS Sponsor. Your CHESS Sponsor may charge for this service.

Why are notices sent to me?

ASX Settlement sends you notices to inform you of any changes to your registration details or any change to your holding that is not covered by the routine holding statements. Some of the types of notices you may receive include:

- Change of name and/or address
- Change of sponsor
- Takeover offer acceptance
- Buyback offer acceptance, and
- Collateral reservation.

Can I have a relationship with more than one CHESS Sponsor?

Yes. There are several ways in which you can manage a relationship with more than one CHESS Sponsor:

- Establish a separate sponsorship agreement with separate stockbrokers and operate separate portfolios by always selling shares through the stockbroker who bought them for you. You will need to manage a HIN for each stockbroker.
- Establish sponsorship through one stockbroker (your CHESS Sponsor). If you trade through another stockbroker, advise that stockbroker of your sponsorship arrangements and instruct them to transfer your shares to or from your CHESS Sponsor. You must also instruct your CHESS Sponsor to deliver or receive the shares as a result of the trade. Your CHESS Sponsor may charge a fee for this.
- Appoint a non-broker such as a trustee company or margin lender as your CHESS Sponsor. When you trade with a stockbroker, instruct them to settle into your HIN with your CHESS Sponsor.

Can I move my CHESS holdings between CHESS Sponsors?

Yes. You can move either your entire CHESS holding or part of your CHESS holding from one CHESS Sponsor to another. If you are moving your entire CHESS holding, you should be able to keep the same HIN.

How do I change my name and/or address in CHESS?

To change your registered name and/or address, contact your CHESS Sponsor and provide them with the details and the paperwork necessary to verify the changes. Your CHESS Sponsor makes the changes in CHESS. You cannot change these details through the Share Registries. Once the changes are effected, ASX Settlement will mail you a CHESS notice confirming your new details.

How do I convert shares from the Issuer Sponsored subregister to the CHESS subregister?

To convert shares from the Issuer Sponsored subregister to the CHESS subregister:

- Enter into a sponsorship agreement with your chosen CHESS Sponsor. You will be allocated a HIN.
- Give your CHESS Sponsor the details of your Issuer Sponsored holdings, including the SRNs of the Issuer Sponsored holdings, and instruct them to move these holdings onto the CHESS subregister. Remember, your SRN can be found on your Issuer Sponsored holding statements.

Your CHESS Sponsor will convert your Issuer Sponsored holding to the CHESS subregister. ASX Settlement will confirm the conversion by mailing you a CHESS Holding Statement for each security transferred.

How do I convert a CHESS Sponsored holding to the Issuer Sponsored subregister?

To convert a holding to the Issuer Sponsored subregister, give appropriate instructions to your CHESS Sponsor, who will arrange the conversion. Your sponsor may charge a fee for this service.

How can I affect an 'off-market' transfer?

If you are sponsored in CHESS and wish to transfer your shares to another party 'off-market' (perhaps to gift them to someone), either:

- Instruct your CHESS Sponsor to make an off-market transfer of the shares to the other party; or
- Instruct your CHESS Sponsor to convert the shares to the Issuer Sponsored subregister. When this is done, complete an Australian Standard Transfer form, available from the share registry, to effect the transfer from your Issuer Sponsored holding.

For more information, ask your CHESS Sponsor.

How can I pledge my shares as collateral for a loan?

There are several ways of pledging your shares as collateral:

- If your lender also has access to CHESS, they may act as the CHESS Sponsor of the shares you wish to pledge
- You might transfer the shares into the name of your lender's nominee company, or
- Establish a three-way agreement between yourself, your CHESS Sponsor and the lender whereby the CHESS Sponsor agrees not to transfer the shares without the lender's authority.

If I have a query about my holding, who do I contact?

As a CHESS Sponsored shareholder, your first contact for any enquiry should be your CHESS Sponsor. This includes queries into transactions on your CHESS Holding Statement and any queries regarding your registration name and address on CHESS.

If you have a query related to matters handled by the share registry, for example dividend reinvestment participation, rights acceptance, dividend payment instructions, etc., you may need to contact the relevant share registry. However, your CHESS Sponsor is advised of any changes to your holding initiated by the share registry, so they may be able to answer your query themselves.

PhillipCapital

Your Partner In Finance

WARRANT CLIENT AGREEMENT

Please complete this form and return to Phillip Capital Limited and you may then trade in ASX or Chi-X Warrants

I / We

(full names of applicants, individual or company)

of

(address)

Account number

hereby declare that:

1. I/We have received and read the explanatory booklets issued by ASX Limited (ASX) and Chi-X Australia Pty Ltd (Chi-X) in respect to Warrants.
2. I/We understand that neither Australian Options Market nor ASX Clear Pty Ltd have any involvement whatsoever with Warrants.
3. I/We am/are aware that a Warrant has a limited life and cannot be traded after its expiry date.
4. I/We am/are aware that Warrants do not have standardised Terms of Issue and acknowledge that it is my responsibility to become aware of the Terms of Issue of any Warrant in which I choose to invest.
5. I/we am/are aware that Warrants may be subject to adjustments after their initial issue. I acknowledge that it is my responsibility to become aware of any adjustments which may have been made to any Warrant in which I choose to invest.
6. I/We am/are aware that admission to Trading Status of a Warrant does not imply that the ASX or Chi-X or the Securities Exchanges Guarantee Corporation Limited gives any guarantee or warranty of the viability or the Warrant-Issuer or Guarantor.
7. I/We acknowledge that failure of the Warrant-Issuer or the Guarantor (if applicable) to fulfill their obligations does not give rise to a claim against the ASX, Chi-X, handling Participating Organisations or the Securities Exchange Guarantee Corporation Limited.

Client	**Client**
✘	✘
Signature	Signature
Print name	Print name
Date	Date

Please forward the original signed Agreement

Phillip Capital Limited
ABN 14 002 918 247 AFSL 246827
Level 10 330 Collins Street Melbourne Vic 3000
PO Box 628 Collins Street West VIC 8007
Telephone +61 3 8633 9818
Facsimile +61 3 8633 9899
Email settlements@phillipcapital.com.au
Website www.phillipcapital.com.au

Understanding Trading and Investment Warrants

WARRANTS

EDITION 18

ASX

Disclaimer

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 Edition 18, printed January 2016.
For this product the market is operated by ASX Limited ACN 008 624 691

Warrants information line: 131 279   www.asx.com.au/warrants

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Before you begin

What are warrants?

Warrants are financial instruments issued by banks and other institutions and are traded on ASX. They are very broadly split into investment-style products and trading-style products.

Warrants are a form of derivative – that is, they derive their value from another 'thing' (underlying instrument). Some give holders the right to buy, or to sell the underlying instrument (for example a share) to the warrant issuer for a particular price according to the terms of issue. Alternatively, others entitle holders to receive a cash payment relating to the value of the underlying instrument at a particular time (for example index warrants).

Warrants may be issued over securities such as shares and Exchange Traded Funds (ETFs), a basket of different securities, a share price index, debt, currencies, or commodities.

The range of financial instruments traded as warrants has evolved over time so that it is now difficult to define particular characteristics of all warrants. Warrants cover a wide spectrum of risk profiles, investment objectives and likely returns.

Some warrants have higher risk/return profiles than others that offer lower risk features such as capital guarantees.

About this booklet

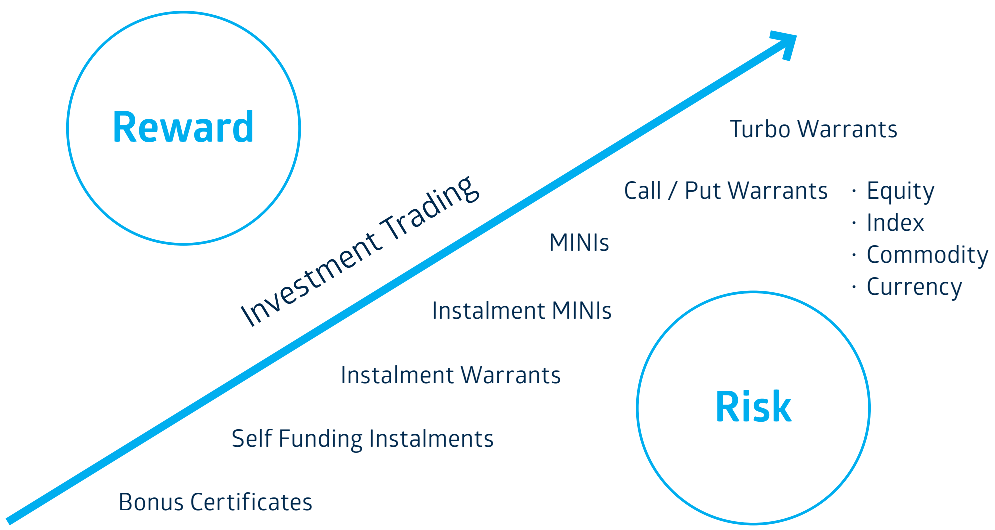
This booklet contains an outline of common features and a general description of most types of warrants. It is not an exhaustive or complete analysis of all warrant types and features.

The main objective is to provide you with general information about warrants and about some of the risks of trading or investing in warrants.

Before buying warrants, you should understand the terms and risks associated with the particular warrant series. You should read the disclosure document (called either a product disclosure statement or in some cases an offering circular) prepared by the issuer of the warrants and seek specific advice from your accredited adviser.

A section dealing exclusively with risks associated with warrants is on page 21.

Risk/Reward matrix

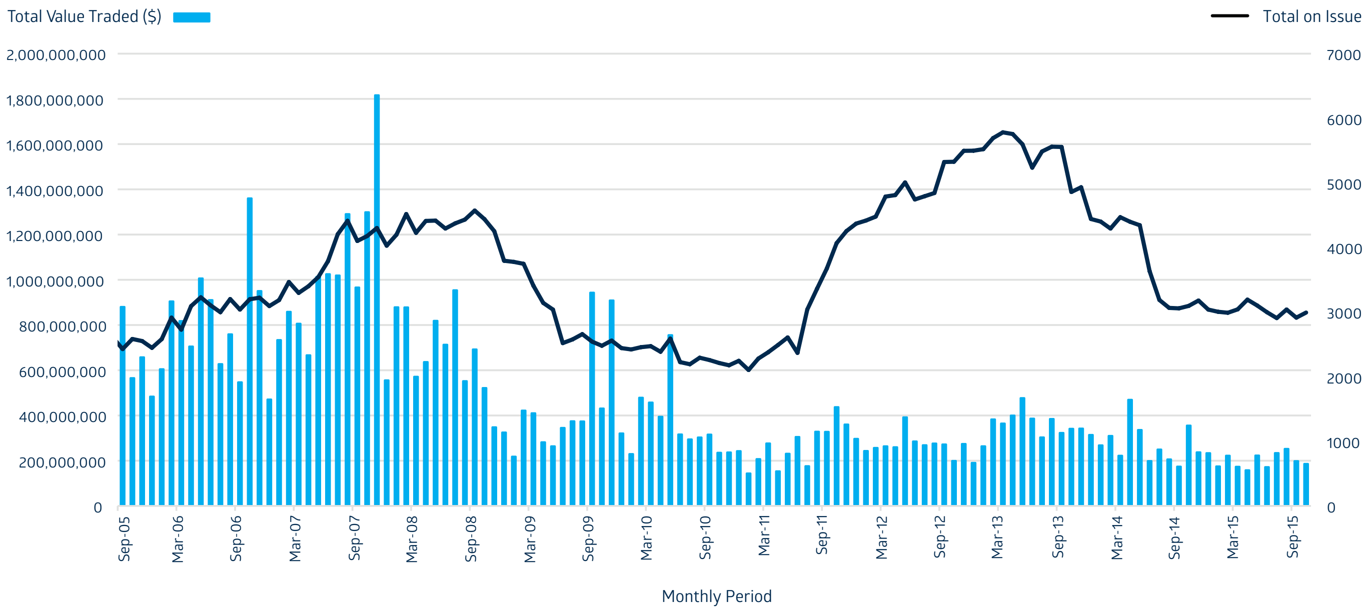


The ASX warrants market

Warrants are traded in many key financial markets of the world. ASX has operated a warrant market since 1991.

The market began by trading equity call warrants only. Other types have been introduced over time. There are now a number of different warrants available for trading or investment including instalments, trading warrants, MINIs, barrier warrants, commodity warrants, currency warrants, structured investment products & endowments. These (and others) are discussed later in this booklet.

Warrant turnover and series on issue



Important

It is important that you understand:

- ASX grants permission for warrants to be traded on its market (called 'admission to trading status') on the application of warrant issuers. ASX does not guarantee the performance of warrant issuers nor does it vouch for the accuracy of their product disclosure statements.
- You must make your own credit assessment of the warrant issuer of a particular warrant series.
- Most warrants have a limited life and cannot be traded after the relevant expiry date. The terms of a warrant series may be subject to adjustments or the warrants may expire early in particular circumstances.
- Warrants do not have standardised terms. The terms may vary considerably between different series (even between warrants of the same type) and different warrant issuers. You should seek information regarding the specific terms of issue for a series of warrants before you trade in a series.
- There are different risk and return profiles for different warrant series. Some warrants have features that make them more risky than others. You should seek specific advice about the risks and features of a warrant series from your accredited derivatives adviser.
- Some advisers may be paid commissions or other benefits by warrant issuers in relation to the sale of particular warrants. Your adviser is obliged to disclose to you any commissions or other benefits which may influence his/her recommendation.

Warrants and ETOs

ASX also operates a derivatives market for exchange traded options (ETOs). To varying degrees (depending on the type), warrants have similarities to ETOs. Warrants and options are primarily financial products that allow you to gain exposure to the underlying instrument without necessarily owning that instrument.

Warrants and ETOs do not give direct control over the underlying instrument until exercise and unlike shares, will expire after a certain period of time. There are however some key differences between warrants and ETOs such as:

- The terms of ETOs are standardised and are set by ASX, whereas the terms of different warrant series are set by the issuer and can be quite diverse.
- Warrants are tailored to meet specific needs. There are different types of warrants and some of these types of warrants have little in common with ETOs.
- Unlike ETOs, you cannot write warrants and there are no margin payments associated with warrants to cover the risk of financial loss due to adverse market movements.
- Settlement of warrant trades occurs through CHESS in the same manner in which share transactions are processed. ASX Clear Pty Limited (ASXCL), which controls the clearing of ETOs has no involvement in settling warrant trades.

Warrant features

Some key warrant features are described below – some appear in all warrant types and some do not. As we state many times, warrants do not have standardised terms. The terms are specified by the warrant issuer within the constraints of the ASX Operating Rules and the law. This means the terms may vary significantly between different warrant types, between different series of the same type of warrant and between different warrant issuers.

The terms and conditions of a particular warrant series are set out in a document prepared by the warrant issuer called a disclosure document (either a product disclosure statement (PDS) or an offering circular). To obtain a copy of a disclosure document, you should speak to your adviser or the warrant issuer. Some warrant issuers put their disclosure documents on their own websites. All relevant disclosure documents, issued post 1999, are available on the ASX website.

When reading the disclosure document, you should be aware that some issuers use different terminology for different types of warrants. Where this occurs, the disclosure document will generally contain a table to cross-reference the terms to known concepts.

Underlying instrument

A warrant derives its value from some other 'thing' or instrument. The underlying instrument may be a security (such as a share in a company including overseas securities & ETFs), a share price index, a commodity or a currency. Some warrants are over a 'portfolio' or 'basket' of securities. The basket may consist of securities in entities with similar activities, for example mining or manufacturing. Warrants over a basket of securities give exposure to the performance of a group of securities or a particular industry. If there is a corporate action, or similar event, the underlying instrument may be adjusted. The disclosure document will explain when this may occur.

A warrant derives its value from some other instrument.

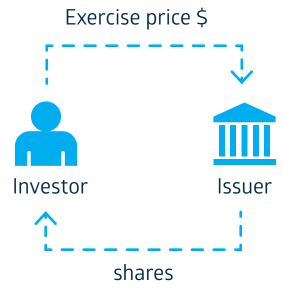
Call or put warrants

Warrants can be either call warrants or put warrants. Call warrants benefit from an upward price movement in the underlying instrument whereas put warrants benefit from a downward trend.

A deliverable call warrant generally gives you the right to buy the underlying instrument (eg a share) from the warrant issuer at a particular price on, or before, a particular date. A deliverable put warrant generally gives you the right to sell the underlying instrument to the warrant issuer at a particular price on, or before, a particular date. For cash settled calls and puts, the value of the warrant is paid to you in cash.

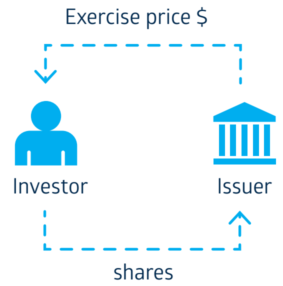
Call warrant
The exercise price is paid by the holder of a call warrant to the issuer...

...in exchange for the underlying asset.



Put warrant
The exercise price is paid by the holder of a put warrant by the issuer...

...in exchange for the underlying asset.



Exercise price (or strike price)

This is the amount of money which must be paid by you (in the case of a call warrant) or by the warrant issuer to you (in the case of a put warrant) for the transfer of each of the underlying instrument(s) (not including any brokerage or other transfer costs).

In the case of cash settled warrants, the difference between the exercise price (sometimes referred to as the exercise level) and the value of the underlying instrument at expiry is paid on settlement.

The exercise price is generally fixed when the warrants are issued. However, the exercise price could be variable. For example the exercise price of self-funding instalments and MINI warrants is not fixed. The exercise price of some warrants may also be in a foreign currency – eg. currency warrants and international equity warrants.

Some issuers charge for costs associated with the delivery of the underlying product, so the amount payable on exercise may be more than the stated exercise price.

The exercise price or the basis for calculating the exercise price will be specified in the disclosure document prepared by the warrant issuer.

Like the underlying instrument, the exercise price may be adjusted in certain circumstances. Again, the disclosure document should explain when this may occur.

Please note that in the case of instalments, the exercise price is referred to as the loan amount, for tax purposes.

Expiry date

The expiry date is the last date on which the warrant can be exercised. Trading in a warrant ceases on the expiry date. Under some circumstances warrants may expire early including when the warrant has been validly exercised. The issuer will be obliged to deliver or take delivery of the underlying instrument or make a cash payment according to the terms of the warrant series.

Exercise style

Warrants can be either American style or European style exercise. American style means you can exercise the warrant at any time on or before the expiry date. European style means you can only exercise the warrant on the expiry date of the warrant.

Occasionally warrants are a mixture of American and European, eg. they may be European up to a certain date and then American thereafter. The terms of the warrant series will set out how you may exercise the warrant. You should be familiar with the terms relating to exercise. A failure to follow the terms may mean the exercise of the warrant is not effective.

Exercise style	Able to exercise	
	Before expiry	At expiry
American	✔	✔
European	✖	✔

Deliverable or cash settled

Deliverable warrants are settled in the first instance by a transfer of the underlying instrument, eg. equity warrants. Cash settled warrants are settled by a cash payment by the warrant issuer to you, eg. index warrants. Some deliverable warrants may also provide for cash settlement in certain circumstances.

In some cases a large number of warrants may need to be exercised to give rise to a delivery obligation, eg. international equity warrants. The terms of issue will identify any exercise conditions.

Issue size

This is the number of warrants that may be issued in a particular warrant series. The warrant issuer may reserve the right to apply to ASX to have more warrants issued in the same series without notice to holders.

Conversion ratio

The conversion ratio is the number of warrants that must be exercised to require the transfer of the underlying instrument. The terms of issue may require one warrant to be exercised to trigger delivery of one underlying instrument. Alternatively, a number of warrants may need to be exercised for the delivery of one underlying instrument.

Example
If you want to exercise a call warrant over BHP ordinary shares with a conversion ratio of 4, you are required to exercise 4 warrants to buy 1 underlying instrument, which in this case is 1 BHP share.

Do not forget that the conversion ratio is not the only term that must be satisfied to trigger a settlement obligation – refer to the disclosure document for other conditions relating to a valid exercise.

The conversion ratio will affect the price of the warrant on a per share basis (but not the leverage).

A higher conversion ratio means a lower warrant price. While trading prices are quoted on a per warrant basis, the exercise price is quoted on a per underlying instrument (or share) basis. It is therefore important to know the conversion ratio of a warrant series before investing.

The conversion ratio of a warrant may be affected following a corporate action by the underlying company, eg as a result of a bonus issue or a capital reconstruction.

Covered warrants

A warrant is said to be covered if the warrant issuer places the underlying instrument in a trust or similar custodial arrangement on behalf of the holder. To be called 'fully-covered', the warrant series must also meet particular criteria set out in the ASX Operating Rules.

Index multiplier

This is only relevant to index warrants. It is the figure used to determine the amount payable to you on exercise or expiry.

As a formula,

The intrinsic value of a call index warrant
on exercise or expiry
=
the index multiplier
x
(closing level of the index –
the exercise level of the warrant).

Example
If the closing level of the index is 4,800 points and the exercise level of a call index warrant is 4,600 points then the warrant has an intrinsic value of 200 points. If the index multiplier is 1 cent then you are entitled to receive $2.00 per warrant (being $0.01 x (4,800 – 4,600)).

Barrier levels

Some warrants have barrier features. A barrier level is a defined level that causes some event to occur. Some barriers cause the warrant to terminate before the original expiry date. Others may cause an adjustment to the exercise price and barrier level (and the warrant continues until expiry) but may require you to make an additional payment to the issuer. Other barriers simply cause the exercise price (or level) and barrier to be reset. The consequences of triggering a barrier level will be specified in the disclosure document for the warrant series. Barrier levels are nominated by the issuer before warrants are issued. The barrier can be above or below the exercise price (or level) of the warrant. Warrants may expire worthless if they are out-of-the-money when the barrier is triggered.

If however, the warrants are in-the-money, then the issuer may be obliged to pay a cash amount to holders. The descriptions of index warrants and equity warrants in the **Types of warrants** section of this booklet include examples of warrants with barrier levels.

Cap levels

Some warrants have their upside potential capped at a certain level. This is sometimes called the cap level.

Cap levels are different to barriers. Cap levels generally do not cause the warrant to terminate but will limit the upside profit potential of the warrant. A cap level is fixed by the issuer when the warrant is issued. If, on exercise or expiry, the value of the underlying instrument is above the cap level, settlement of the warrant is based on a return equal to the cap level (and not the value of the underlying instrument). You could be entitled to a cash payment or transfer of the underlying instrument at a value equal to the cap level. Cap levels are used in a number of different warrant types. In some warrants the cap level is an essential feature. In these warrants, the position of the cap relative to the current share price has a significant economic impact on how the warrant works. The description of capped warrants in the **Types of warrants** section of this booklet has examples of these warrants.

Bonus levels

Some warrants, most commonly Bonus Certificates, have a feature that adjusts the settlement amount depending upon whether a barrier level has been reached. This is sometimes called a bonus level.

Bonus levels are different to caps. Bonus levels do not limit the upside profit potential of a warrant. A bonus level is fixed by the issuer when the warrant is issued. If the value of the underlying instrument has not fallen beneath the barrier level at any time before the expiry date, the holder will get the value of the bonus level when the warrant expires. Unlike a cap, the bonus level sets a minimum value for the settlement amount. If the value of the underlying instrument is higher than the bonus level the settlement amount of the warrant will reflect the higher value. For a bonus certificate both the bonus level and the barrier level are essential features. The description of bonus certificates in the **Types of warrants** section of this booklet has examples these types of warrants.

Types of warrants

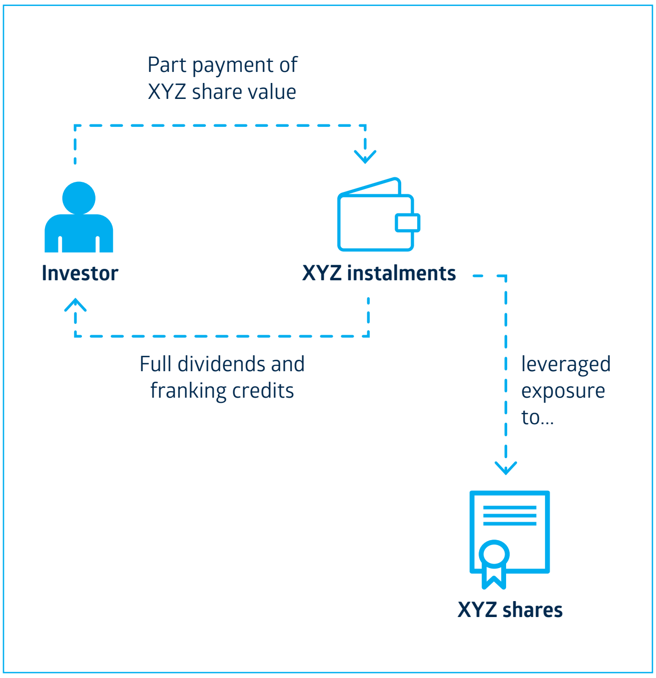
In broad terms, warrants can be viewed as being either trading-style or investment-style products. Some may fall into both categories. Trading style warrants are frequently traded and are generally short dated. They have a higher risk/return profile compared to the investment-style warrants. Equity warrants, index warrants, barrier warrants and MINI warrants usually fall within this category. Investment-style warrants have other features to attract investors. These warrants tend to be longer dated and are less frequently traded. They have a lower risk/return profile and often have a higher initial outlay compared to trading-style warrants. Endowments and structured investment products are investment-style products. Instalments bridge the gap between trading and investment-style products as some investors hold instalments for trading purposes and some hold them for longer term investment purposes.

Before buying warrants, you should understand the features, benefits and risks of the warrant series you are considering. You should read the disclosure document prepared by the warrant issuer and seek advice from an accredited derivatives adviser. Disclosure documents are available from the warrant issuer and can also be downloaded from the ASX website **www.asx.com.au.**

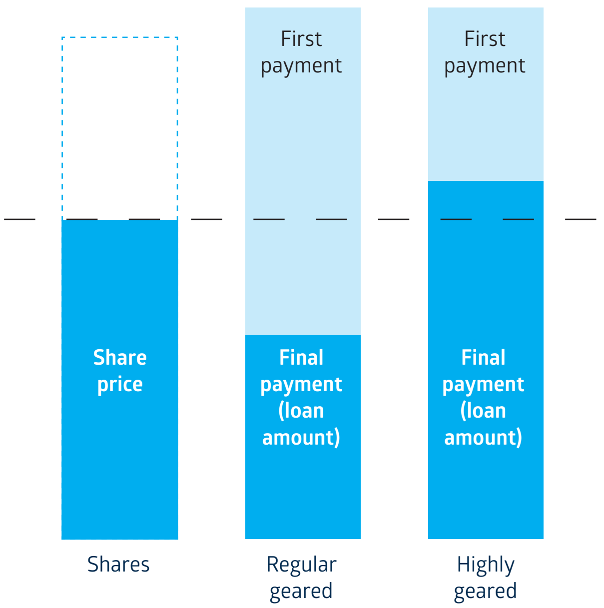
From time to time we may add further information about new warrant types or features to the ASX website at **www.asx.com.au/warrants.**

Instalments

Instalments allow holders to gain direct exposure to underlying shares by making an initial payment (first instalment) and delaying an optional final payment (final instalment) to a later date (expiry date). In simple terms, instalments are a loan to buy shares, without the obligation to repay the loan or the risk of receiving margin calls. The unique feature that sets instalments apart from other types of warrants is that you are entitled to dividends or distributions and franking credits paid by the underlying instrument during the life of the instalment. It is important to note that in some circumstances, holders, although entitled to a dividend, may not actually receive that dividend in cash.



For example, special dividends may, subject to the terms of issue, be used to reduce the loan amount rather than paid as cash to the holder. Likewise, holders of ‘Self Funding Instalments’ are entitled to a dividend although it will be used to reduce the loan amount rather than being paid out in cash. Instalments generally do not pass on voting entitlements of the underlying instrument.



The higher the level of gearing the smaller the share price fall needs to be to impact negatively on the instalment

Instalments can have a variety of gearing levels. When considered from a gearing perspective, instalments can generally be divided into two categories; 'regular geared' and 'high geared' instalments. At the time of issue, a 'regular geared' instalment will be geared at between 40% and 65%, i.e., for a 50% geared instalment the loan amount would be 50% of the share price. The traditional instalment price will reflect the difference between the share price and loan amount plus funding cost (interest and borrowing fees). At the time of issue, a 'high geared' instalment will have a gearing level between 65% and 90%. As a result of the gearing level the instalment price will reflect a significantly higher funding cost compared to regular geared instalments.

Instalments are considered to have some characteristics of call warrants, giving holders the right to exercise the instalment to receive the underlying instrument. Instalments can be either European or American exercise style and they usually have a life of between 12 months and 15 years. Instalments are deemed to be a covered warrant meaning that the underlying instrument is held in a trust arrangement for your benefit by a trustee (generally the issuer). If you decide to exercise the instalment and repay the loan amount the underlying instrument will be transferred from the trust to you. If you decide you do not wish to exercise the instalment, some instalments give you an option to put the underlying instrument back to the issuer and receive a cash payment. Because an instalment is in essence a loan to buy the underlying instrument, the interest component of the payments may allow you to claim the interest as a tax deduction. Many warrant issuers obtain ATO product tax rulings which detail the tax benefits of their instalment series. The PDS should detail the tax benefits of the instalment.

Example

Warrant code	XYZIMM
Underlying instrument	XYZ ordinary shares
Warrant type	Instalment
Expiry date	28 September 2019
Exercise price	$21.00
Exercise style	American
Conversion ratio	1
Settlement	Physical delivery

If XYZ's share price was around $35.00 at the time of issue of the instalment then you would have paid about $16.60 for the instalment (about half the share price at the time plus funding cost which consists of prepaid interest and fees). If you want to hold the XYZ share outright, you can exercise the instalment by paying $21.00 at any time on or before 28 September 2015 to receive one XYZ share per instalment.

The relatively conservative gearing level of instalments means that there tends to be a close relationship between movements in instalment prices and movements in the underlying share.

As investors have different needs and financial objectives, innovation has led to the development of different types of instalments. A particular type of instalment may appeal to one's investment objectives compared to another. Therefore it is important to find the most appropriate instalment structure for your needs and objectives. Below is a description of some of these variations on an 'ordinary instalment' structure and an explanation of the unique features associated with each.

Rolling instalments

Rolling instalments are a variation on the ordinary instalment structure. They have a much longer life (up to 15 years). On a periodic basis (12, 18 or 24 months) the instalment will undergo a reset of the loan amount. The reset period is identified upon the issue date and is outlined in the disclosure document and on the ASX website. The instalment is structured so that the interest and borrowing fees are prepaid only up to the next reset date. During a reset period the issuer will ask the holder to prepay the next period's interest and fees up to the next period, if they wish to continue to maintain exposure. At this time the issuer may also adjust the exercise price (often called the "loan amount" of the instalment) with the objective of maintaining a desired gearing level during the life of the instalment (for example, the exercise price may be adjusted to keep it between 40% and 60% of the current market price of the underlying instrument).

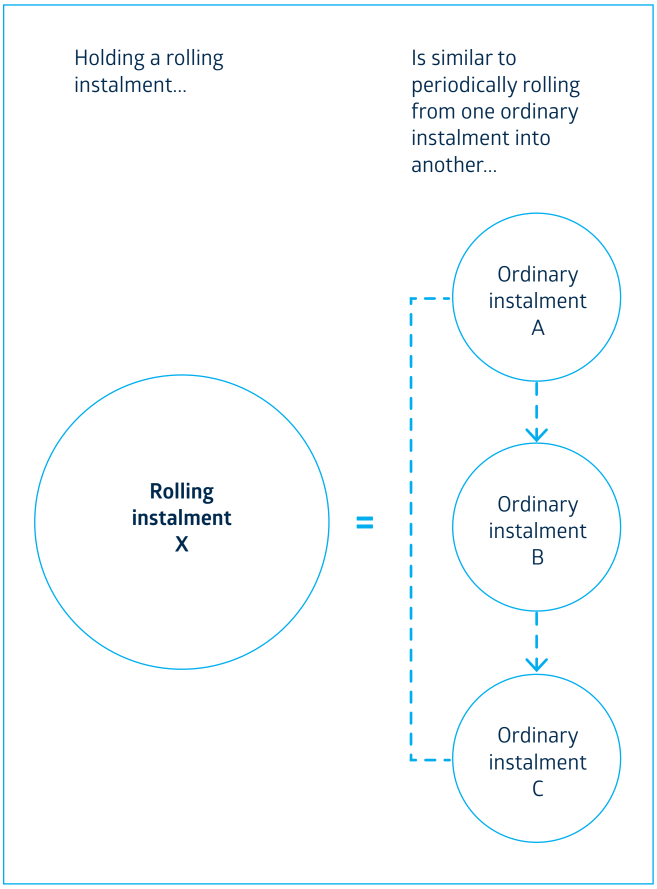
The issuer may either:

1. Reduce the exercise price (loan amount): In this case, holders will be asked to make an additional cash payment in order to reduce their loan and prepay their funding costs up until the next reset period (12, 18 or 24 months) if they wish to maintain exposure.
2. Increase the exercise price (loan amount): In this case the issuer may make a payment to holders equal to the amount of the increase less funding costs until the next reset period (this may either be in cash or in the form of a reinvestment in additional instalments).
3. Retain the exercise price (loan amount) unchanged: In this case the holder will be asked to make a payment to the issuer for the prepayment of funding costs up until the next reset period, if they wish to maintain exposure.

There tends to be a close relationship between movements in instalment warrant prices and movements in the underlying share or other instrument.

On the annual reset date you may choose to exercise some or all of the instalments and take delivery of the underlying securities, cash out the instalment, roll into the following year (by agreeing to pay any additional amounts necessary) or do nothing. If you do nothing you are deemed to have accepted the new exercise price and will automatically roll into the following year. If there is an amount due on a series on the 'reset date', and you don't pay this amount, the issuer may terminate some (or all) of your instalments and use the proceeds to meet the amount due. Conceptually, these instalments can be explained as a series of consecutive ordinary instalments that run back to back with the exercise price being reset on a periodic basis.

During the period surrounding each 'reset date', investors should take care to consider the effect of a change in the exercise price on the value of the rolling instalment. Information on an upcoming reset can be obtained from the warrant issuer or from ASX.



Self Funding Instalments

Self Funding Instalments ("SFI") are another variation on the (ordinary) instalment structure. Like other instalments, you make a partial upfront payment and the issuer loans you the remaining amount. Once you have made your initial payment, generally, there are no additional payments required during the investment term (unless you do not provide your TFN (tax file number) or ABN). SFIs are regular geared with an investment term between one and ten years.

Holders are entitled to dividends (including franking credits), however the cash component of a dividend will be used to reduce the loan amount rather than being paid in cash to the holder, stepping it down. The loan amount for a traditional SFI will generally step up once every 12 months, as funding costs are added to the total loan amount. Hence, over the life of the SFI, the loan amount will periodically decrease due to the payment of dividends from the underlying instrument, and increase by the amount of funding costs. Ideally the loan amount will progressively reduce over the life of the SFI if the regular dividend payments exceed interest and borrowing charges.

As a result of the dividends being treated differently as compared to other instalments, ASX differentiates SFIs by using the letter 'S' instead of 'I' or 'J' as the fourth letter in the warrant code eg XYZSOC.

There may be some tax considerations as holders are entitled to dividends (including franking credits) and make interest payments. As not all instalments have the same structure or features, you should talk to your tax adviser and contact the warrant issuer for an ATO product ruling.

Example

Warrant code	XYZSOC
Underlying	XYZ
instrument	ordinary shares
Warrant type	Self funding instalment
Expiry date	30 June 2021
Exercise price (loan amount)	$9.50 (16 February 2014)
Exercise price (loan amount)	$9.154 (21 March 2015)
Exercise style	American
Conversion ratio	1
Current price	$12.10

In this example XYZSOC was issued with a loan amount of $10.50 in February 2010. Over time dividends have been paid which have been used to reduce the loan amount. In addition, prepaid interest has been added to the loan amount periodically (generally on 30 June) to reflect the ongoing funding cost of the loan. Taking into account the dividend payments and funding cost, the loan amount has decreased over a 12 month basis from $9.50 to $9.154, reflecting a positively geared investment. The franking credits continue to be passed to the holder of the instalment.

Variations of Self-funding instalments

Two variations on the traditional Self funding instalment structure are rolling SFIs and stop loss SFIs. There are a number of key differences between these styles of self-funding instalments that it is important to be aware of.

Rolling SFIs

As the name suggests rolling SFIs incorporate attributes of both rolling instalments and the traditional SFI. There are two key differences that differentiate the rolling SFI from the traditional SFI.

Firstly the protection fees that allow you to walk away without having to make that final payment are only paid 12 months in advance as opposed to the traditional SFI where you pay all protection fees upfront.

Secondly the rolling SFI will have an annual review every 12 months with a range of options available to the investor. One of which will be to roll the SFI on for another 12 month period.

Stop loss SFIs

Unlike the traditional and rolling SFIs all loan protection costs are eliminated in the stop loss SFI by the incorporation of a stop loss feature. The stop loss feature is a predetermined level of the underlying share price set by the warrant issuer. This stop loss feature will prevent the value of the SFI from becoming negative. However it is important to note that if this stop loss level is breached, trading in the SFI will cease.

Stop loss SFIs will also incur funding costs on a daily basis rather than an annual basis as is the case with the traditional and rolling SFIs.

Income instalments

With an initial investment term between 18 and 24 months, Income Instalments may provide tax efficiency. You will prepay up to 12 months of interest on investing, with the remaining interest portion added to the loan amount at one or more later dates. You should talk to your tax adviser regarding the potential for any tax efficiency.

At maturity you have the option to make the second payment (equal to the outstanding amount) and take possession of the reference shares; do nothing and receive the net sale proceeds of the shares, or you may be able to maintain your share exposure by rolling over for another term.

Instalment MINIs

For a fraction of the cost, Investors are afforded all the benefits of share ownership, including any share price appreciation on a one-for-one basis, all distributions or dividends in full as well as associated franking credits.

Each Instalment has a Stop-Loss feature, the level of which is set for each Instalment before it is issued and is typically reset monthly (or at any time at the issuer's discretion). The Stop Loss Level is set at a certain level above the final instalment. Once the Stop Loss Level is reached, this triggers a Stop Loss Event and the relevant Instalment will expire. Any remaining value will be paid to the investor.

Instalment MINIs will also incur funding costs on a daily basis rather than on an annual basis as is the case with traditional instalments where interest is prepaid until the earlier of the next reset date or the maturity date.

MINIs

MINI warrants are a type of trading warrant that offers leveraged exposure to a diverse range of underlying assets including shares, indices (domestic and international), currencies, commodities and exchange traded funds (ETFs). They allow you to track the value of an underlying asset, on a one for one basis, for a relatively small upfront cost. MINI warrants are classified as either 'longs' or 'shorts'. MINI longs enable you to benefit from an upward price movement in the underlying instrument whereas MINI shorts enable you to benefit from a downward trend or the opportunity to hedge an existing position.

Value of MINIs

The calculation of the value of a MINI varies based on the underlying asset which you are gaining exposure to. The examples overleaf provide you with an understanding of how the value of a MINI is calculated.

Where the underlying asset is a share, the value of a MINI is generally:

Value of a MINI Long = Share Price – Strike Price

Value of a MINI Short = Strike Price – Share Price

Where the underlying investment is a domestic index, the value of an Index MINI is generally:

Value of an Index MINI Long = [level of Index Futures – Strike Price]/Multiplier

Value of an Index MINI Short = [strike price – Level of Index Futures]/Multiplier

The multiplier for index MINIs is usually* 100. This multiplier converts the value of the index value of the MINI into dollar terms.

Where the underlying asset is an international index, currency or commodity, the value of the MINI is generally:

Value of MINI long = (underlying price – Strike price) x Multiplier/exchange rate

Value of MINI short = (Strike Price – Underlying Price) x Multiplier/exchange rate

Once again, the multiplier for international index, currency and commodity MINIs is usually* 100.

Features of MINIs

MINIs combine features and benefits of other warrant types with unique features of their own.

MINIs offer varying degrees of leveraged exposure (commonly between 50 and 95%) to a range of underlying assets. This leverage is primarily determined by the difference between the MINI's exercise price and the price of the underlying asset. The level of leverage offered by the MINI is determined by dividing the strike price by the current value of the underlying asset. Warrant issuers provide information on the level of leverage and the value of the MINI at the start of each trading day via the company announcements section on the ASX website and via the warrant issuers' website.

MINIs have an in-built stop loss feature which is set above the exercise price for MINI longs and below the exercise price for MINI shorts. This feature ensures that investors cannot lose more than their initial capital outlay. The stop loss is triggered:

- for a MINI long, the market price of the underlying instrument is less than or equal to the barrier at any time; and
- for a MINI short, the market price of the underlying instrument is greater than or equal to the barrier at any time.

Please note that where the underlying asset derives its value from an overseas exchange, the breach of a barrier may occur outside of ASX Market Hours.

The level at which the stop loss is set depends on the liquidity of the underlying asset. For very liquid underlying assets the stop loss will be set very close to the exercise price of the MINI. The stop loss level is adjusted by the issuer at the beginning of each month to the same percentage level above the strike price as when the MINI was issued.

The stop loss level is also adjusted on the ex-dividend date, since the issuer will reduce the strike price of the MINI on the ex-dividend date to ensure that an investor is not disadvantaged by a dividend event.

Unlike other types of warrants quoted on ASX, MINIs are open ended contracts with no set expiry date. Since they have no set expiry date they will generally track the underlying instrument on a one for one basis. Also unlike other types of warrants MINIs cannot be exercised to take ownership of the underlying asset. They only allow investors to trade directional movements in the underlying assets.

To purchase a MINI, you only need to pay a fraction of the price upfront (capital outlay). This amount does not include funding costs (like interest expenses which are charged daily). The daily funding costs associated with MINIs are added to the previous day's strike price. With MINI longs on shares, investors pay funding costs, however with MINI shorts investors receive a funding benefit.

Holders who both buy and sell their MINIs intra-day are generally not required to pay these funding costs.

The example demonstrates the way in which the funding costs impact return.

Example: Trading a BHP MINI Long

Action	Units	Share Price	Strike Price	MINI Price	Stop Loss Level	Profit/ (Loss)	% Return
Buy	1,000	$40.00	$30.00	$10.00	$33.00		
BHP rises to $42.00							
SELL (same day)	1,000	$42.00	$30.00	$12.00	$33.00	$2.00	20.00%
Sell (2 weeks)	1,000	$42.00	$30.12	$11.88	$33.00	$1.88	18.8%
BHP falls to $38.00							
SELL (same day)	1,000	$38.00	$30.00	$8.00	$33.00	$2.00	-20.00%
SELL (2 weeks)	1,000	$38.00	$30.12	$7.88	$33.00	$2.12	-21.2%

Example: Trading a BHP MINI Short

Action	Units	Share Price	Strike Price	MINI Price	Stop Loss Level	Profit/ (Loss)	% Return
Buy	1,000	$40.00	$50.00	$10.00	$45.00		
BHP falls to $38.00							
SELL (same day)	1,000	$38.00	$50.00	$12.00	$45.00	$2.00	20.00%
Sell (2 weeks)	1,000	$38.00	$50.04	$12.04	$45.00	$2.04	20.4%
BHP rises to $42.00							
SELL (same day)	1,000	$42.00	$50.00	$8.00	$45.00	-$2.00	-20.00%
SELL (2 weeks)	1,000	$42.00	$50.04	$8.04	$45.00	-$1.96	-19.6%

Guaranteed Stop Loss MINIs

Guaranteed Stop Loss (GSL) MINIs have the added benefit of a guaranteed stop loss level. They are listed over ASX listed single stocks as well as Australian indices.

For all GSL MINIs, the Guaranteed Stop Loss Level is equal to the Strike Price. The Guaranteed Stop Loss feature ensures that regardless of the movement of the underlying asset price, investors are unable to lose more than their initial investment amount.

If the Stop Loss Level is reached then the GSL MINI will automatically terminate. As the Stop Loss Level is equal to the Strike Price there is no residual value available to be paid to the GSL MINI holder if it is terminated.

The price of a GSL MINI is determined by the following inputs:

- Underlying Share Price
- Strike Price
- Gap Premium

The Gap Premium is paid to guarantee that the Stop Loss Level is equal to the Strike. For example;

Price of a GSL MINI Long = (Share Price – Strike Price) + Gap Premium

Price of a GSL MINI Short = (Strike Price – Share Price) + Gap Premium

The amount of the Gap Premium is based on market factors including the volatility of the underlying security, the price of the underlying security relative to the Guaranteed Stop Loss Level, and the future expected dividends, if any, on the underlying security. Other factors influencing the amount of the Gap Premium include internal costs in respect of the Issuer (including, for example, in respect of hedging, resourcing, market-making and risk management) and prevailing interest rates.

Please refer to the relevant PDS or the issuer for further information on pricing GSL MINIs and the Gap Premium

Equity warrants

Equity call and put warrants are issued over securities (in some cases securities quoted on an Exchange other than ASX). The exercise price is usually set reasonably close to the value of the security at the time of issue. The expiry date is usually anything from about three to twelve months from the date of issue (average 6 months). Equity warrants can be American or European exercise style and, if exercised, are settled in the first instance by delivery of the underlying security. Equity warrants are frequently traded, particularly when they are short dated.

Example

Warrant code	XYZWOH
Underlying Instrument	XYZ ordinary shares
Warrant type	Equity call warrant
Expiry date	28 December 2018
Exercise price	$7.50
Exercise style	European
Conversion ratio	3
Settlement	Physical delivery

The example above is a call warrant over XYZ Ltd ordinary shares. It is a European style warrant with an expiry date of 28 December 2018 and an exercise price of $7.50. The holder of three XYZWOH warrants has the right to buy one XYZ share for $7.50 on 28 December 2018.

International equity warrants

International equity warrants are offered over securities quoted on an overseas exchange. Hence, although similar to an equity warrant, the structure raises additional issues that you should consider. You should speak to your accredited adviser about the additional complexities of these warrants. For example:

- **Time zone differences between ASX's market and the overseas market** – that is the home market for the underlying securities may not be open for trading at the same time as ASX's market is open for trading in the warrants. Note however the securities may be quoted on more than one exchange and there could be trading hours overlapping with ASX.

- **Delivery of the underlying securities** – the settlement, ownership and custodial arrangements in the overseas jurisdiction will differ from arrangements in relation to ASX quoted securities. You may need to make arrangements to hold the securities overseas.
- **ASX supervision** – ASX does not supervise or regulate trading in relation to the underlying securities. This is primarily the responsibility of regulatory bodies within the jurisdiction of the underlying securities. As a result company announcements and historical trading data will not be available from ASX, although disclosure documents will identify other places where this information can be accessed.
- **Restrictions on exercise** – additional conditions may be placed on exercise, for example, requiring a minimum (large) number of securities to be delivered before the warrants can be validly exercised.

Equity knock-out (barrier) warrants

Equity knock-out (barrier) warrants are equity warrants with a barrier feature that causes the warrant to terminate before the original expiry date. ASX differentiates knock-out warrants from other trading-style warrants through the ASX six letter warrant code. ASX denotes knockout warrants with the fourth letter as X, Y or Z compared to W, V, U or T for other call and put warrants.

In the example overleaf, the holder of one XYZXSE warrant has the right to buy one XYZ share for $20.47 at the expiry date. This is a knock-out call warrant over XYZ shares. It is a European style warrant that will expire on 28 November 2018 and has an exercise price of $20.47.

Example

Warrant code	XYZXSE
Underlying Instrument	XYZ ordinary shares
Warrant type	Equity barrier call warrant
Expiry date	28 November 2018
Exercise price	$20.47
Barrier level	$20.47
Exercise style	European
Conversion ratio	1
Settlement	Physical delivery

The warrant will terminate before the original expiry date if the market price (as defined in the terms of issue) trades at or below $20.47 prior to expiry. In the event that the barrier is hit the warrant will expire prematurely with the warrant value at zero.

Index warrants

Index warrants are linked to the performance of a share price index such as the S&P™/ASX 200 Share Price Index or a foreign index. The exercise level (rather than exercise price) is expressed in index points. These warrants are generally cash settled on exercise or expiry (although certain index warrants may have a deliverable asset such as an exchange traded fund (ETF)).

If the closing level of the S&P/ASX 200 Share Price Index is at 4,800 points on the expiry date, then you will be entitled to receive a cash payment equal to $0.50 per warrant. This is calculated as the (closing level of the index – exercise level) x index multiplier i.e. (4,800 – 4,700) x $0.005 = $0.50 per warrant.

Example

Warrant code	XJOWSE
Underlying	S&P/ASX™200 Share Price Index
Warrant type	Index call warrant
Expiry date	16 December 2018
Exercise level	4,700 points
Index multiplier	$0.005 (1 index point = half a cent)
Exercise style	European
Settlement	Cash Payment

Knock-out (barrier) index warrants

Some index warrants are issued as knock-out warrants which contain a barrier feature. Similar to equity knock-out warrants, if the index level hits or passes through the barrier level, the warrant will expire prematurely with the warrant value as zero.

Index warrants are based on a share price index and may be settled in cash.

International index warrants

Index warrants may also be issued over foreign indices, which represent movements on overseas exchanges. These warrants can have index multipliers in either Australian dollars or the foreign currency (with the foreign amount converted back to Australian dollars at the time of settlement). You should pay close attention to the unique features of international index warrants.

Example

Warrant code	XSPWOK
Underlying instrument	S&P 500 Index
Warrant type	Index Call warrant
Expiry date	17 December 2018
Exercise level	2,300 points Index multiplier $US 0.005
Exercise style	European
Settlement	Cash payment

If the closing level of the S&P 500 Index is 2,450 points on the expiry date, then you will be entitled to receive a cash payment equal to $US 0.75 per warrant. This is calculated as the (closing level of the index – exercise level) x index multiplier i.e. (2,450 -2,300) x US$0.005 = US$7.75 per warrant.

Currency warrants

Holders of currency warrants may exchange an amount of foreign currency for Australian dollars on or before the expiry date. The value of the warrant rises and falls in line with movements in the exchange rate. For example, holders of AUD/USD call warrants benefit from an increase in the AUD/USD exchange rate and holders of AUD/USD put warrants benefit from a decrease in the AUD/USD exchange rate.

In this example, you pay US$9.50 and receive A$10.00 at expiry.

Example

Warrant code	AXUWMI
Underlying instrument	A$10.00
Warrant type	Call warrant
Expiry date	23 December 2018
Exercise level	US$9.50
Exercise style	European
Settlement	Physical delivery or cash

Commodity warrants

Commodity warrants may be call or put warrants where the underlying instrument is a commodity such as gold, silver, platinum, copper, light sweet crude and natural gas. Although they have many similarities with equity call and put warrants, the different nature of the underlying gives rise to a number of additional issues that you should consider. For example:

- If exercised for delivery, holders should consider the different forms of delivery that may be available. This may include the location at which delivery may occur. Delivery of a commodity may also give rise to additional costs such as those associated with transportation and storage.
- Various commodities are traded continuously around the world, hence it is important to recognise the benchmark measure of that commodity being used for the purposes of valuing that index. For example, if cash settled, it may be important to understand the method for pricing the specified grade of the designated commodity, the currency it is priced in, and the time at which it is to be valued.

Endowments

Endowments are long term call warrants typically with a 10 year life at the time of issue. They are over an ASX quoted security or basket of securities. Endowments are promoted as investment products to be bought by investors and held until expiry.

The issue price of an endowment is between 30 and 65 percent of the market value of the underlying security at the time of issue. The exercise price (called the "outstanding amount" of the endowment) is initially the remaining sum plus other costs.

The outstanding amount varies over the life of the warrant. In this respect endowment warrants differ from most warrants as they
do not have a fixed exercise price.

The outstanding amount is reduced by any dividends that are paid in relation to the underlying security. In some instances other payments may also reduce the outstanding amount. However, an interest rate is also applied and the outstanding amount is increased by these interest amounts.

At expiry, if you exercise the warrant and pay the balance of the outstanding amount (if any) the issuer will transfer the underlying securities to you. Ideally the reductions applied against the outstanding amount exceed the interest incurred over the life of the warrant, and the outstanding amount will have decreased. It could reduce to zero prior to or at expiry. If this occurs you may only have to pay a nominal exercise price such as one cent.

An investor in endowments is taking a long term view on the underlying company's dividend policy versus interest rates with the belief that the dividends will outweigh the interest payments and the outstanding amount will reduce over time.

The issuers of endowments can provide you with details of the outstanding amount and the expiry dates of particular endowment warrant series.

Example

Warrant code	XYZEME
Underlying instrument	XYZ Ordinary Shares
Warrant type	Endowment
Expiry date	18 August 2020
Outstanding amount when first issued – 14 February 2005	$9.95
Outstanding amount as at	$2.617 31 March 2015
Conversion ratio	1
Exercise style	American

Bonus Certificates

Bonus Certificates are the newest type of investment warrants available. They benefit both from prices going up as well as a sideways movement in the underlying. A Bonus Certificate enables an investor to receive a Bonus Payment in flat to slightly down markets without having to forego the upside potential, as long as during the life of the certificate the underlying never trades at or below the Barrier Level.

Possible payoff scenarios linked to the performance of the underlying:

Upside Participation
If the underlying is above the Bonus Level on the maturity date, the investor participates fully in the upside performance of the underlying (less dividends) – whether the Barrier has been touched or not.

Downside Protection
If the share or index never trades at or below the Barrier during the life of the product, the investor will receive at least the minimum return)Bonus = Fixed Amount – purchase price) for the term of the Product.

Downside Risk
If the Underlying trades at or below the Barrier, payment at maturity will be identical to the market value of the underlying (less dvidends). If this is below the initial purchase price, then a loss is possible

If the underlying trades at or below the Barrier Level during the life of the warrant, the payoff is identical to that of a direct investment in the underlying, except you will not receive any dividend or franking payments. These are used to finance the bonus mechanism.

Example

Warrant code	XYZBOA
Underlying instrument	XYZ ordinary shares
Warrant type	Bonus Certificate
Expiry date	12 Dec 2016
Bonus Level	$23.10
Barrier Level	$17.10
Exercise Style	European
Conversion ratio	1
Current price	$22.10

In the example above if XYZ's share price was around $22.10 at the time of issue of the Bonus Certificate then you would have paid about $22.10 for the warrant. The price of the warrant on expiry will depend on three scenarios

1. Underlying moves sideways

If the underlying does not trade at or below $17.10 during the life of the warrant and the share price is below $23.10 at maturity then the value of the Bonus Certificate on expiry will be $23.10.

2. Underlying price rises

If the underlying does not trade at or below $17.10 during the life of the warrant and the share price is above $23.10 at maturity then the value of the Bonus Certificate on expiry will be the value of the underlying (i.e above $23.10).

3. Underlying price falls

If the underlying trades does below $17.10 during the life of the warrant then the value of the Bonus Certificate on expiry will be the value of the underlying. If the share price of XYZ rises above the initial purchase price of $22.10, the investor will make a profit despite the Barrier being triggered. If the share price of XYZ is below $22.10, the investor will make a loss.

Structured Investment Products

There are a number of structured investment products listed on ASX, listed below are some examples of particular structured investment product issues. For a full list visit **www.asx.com.au/warrants.**

Yield Income Enhanced Listed Deferred Securities (YIELDS)

YIELDS stands for Yield Income Enhanced Listed Deferred Securities. YIELDS give you a 100% capital guaranteed on the issue price (if held to maturity). They provide exposure to global equities with the potential for a quarterly income payment and capital growth. The potential return is achieved by generating a dividend yield while writing call options over the underlying instrument.

Example

Warrant code	YLDS02
Underlying instrument	Shares within the Dow Jones Global Titans 50 Index
Warrant type	Structured Investment Product
Issue price	$10.00
Expiry date	6 December 2017
Capital protection	Yes, 100% if held to maturity
Exercise style	European

Capital Plus

Capital Plus are issued over a basket of securities quoted on ASX. Capital Plus also offer a 100% capital guarantee on the issue price (if held to maturity). The issue price of each Capital Plus series has varied, either being issued at $1,000 or $1 per warrant. Generally the investment exposure has been up to 5 years from the issue date. While the Capital Plus does not offer an income stream, the holder will receive an investment bonus if held to maturity. Any performance above the issue price at maturity will be geared at a pre-determined level. For example if the issue price of a Capital Plus series is $1,000 with a gearing level bonus of 10% and it matures at $1,500. The holder will receive the original $1,000 back plus $550 ($500 times 110%).

Benefits of warrants

Leverage

Most warrants offer some degree of leverage. This can range from negligible leverage to a high level of leverage, depending on the type of warrant. Some warrants, such as structured investment products effectively have no leverage and generally speaking, investment-style warrants offer less leverage than trading-style warrants. Leverage means that small percentage changes in one variable are levered up into larger percentage changes in another variable.

For example, given a 5% change in the underlying share price, the market value of a warrant might change by 20%.

Example

	XYZ Shares	XYZ Warrants
16/05/2015	$13.68	$0.47
30/05/2015	$14.44	$0.68
Absolute profit	$0.76	$0.21
Percent return	5.6%	44.7%

In the example shown above, on 16 May 2015 the shares of XYZ Limited were trading at $13.68 and the XYZ warrant were $0.47.

By 30 May 2015, the warrants in the table were trading at $0.68 and the shares were trading at $14.44 giving you a 44.7% return from the warrant (not annualised) compared with a 5.6% return on the shares.

It is important to recognise that leverage is a 'double-edged sword.' In addition to magnifying your gains, a warrant can also magnify the percentage of your losses where the value of the underlying instrument moves against the warrant position. This is because an adverse movement in the underlying instrument will also result in a greater percentage decrease in the value of your warrant, i.e. leverage works in both ways.

Speculation

A speculator is a trader who is prepared to bear more risk in return for an expected higher return. If a speculator believes that the value of a particular asset will rise in the future they could purchase the asset now in anticipation. An alternative would be to buy a deliverable call warrant over the same asset. The difference between these and other alternatives is the cost of investment.

Purchasing a leveraged warrant costs less than purchasing the underlying asset. There is however the risk that the warrant will be worthless at the expiry date, this may be more common when using trading-style warrants.

Investment

Some warrants are structured as longer term investment-style products, for example instalments. The benefits of investing in these types of products might be capital growth, income, capital protection or a combination depending on the nature of the product. For example:

Income

Holders of instalments are entitled to the full dividends and franking credits. This income stream is accelerated as the holder only pays a fraction of the share price upfront. If the share price is $10 and pays a 50c dividend, this would give holders a 5% yield, while an instalment worth $5 would entitle the instalment holder to the same 50c dividend generating a 10% yield.

Unlock wealth – cash extraction

Holders of an existing share portfolio can convert the shares into instalments allowing them to unlock the wealth to invest elsewhere, while deferring Capital Gains Tax (CGT). This allows you to further leverage your exposure to the share or spread the risk and build a broader asset base. If the share price is $10, a holder could convert them into an instalment worth $5, unlocking $5 in cash. This cash can then be reinvested to buy more of the same shares, instalments or other investments. The cash extraction strategy cannot be used in a SMSF.

Portfolio protection – hedging

Equity and index put warrants allow you to protect the value of your portfolio against falls in the market or in particular shares. Put warrants allow you to lock in a selling price for the underlying instrument. Protecting your position in this way is called hedging. A hedge is a transaction which reduces or offsets the risk of a current holding.

Limitation of loss

If the value of the underlying instrument is less than the exercise price of the warrant at expiry then a call warrant will expire worthless. Your maximum loss* is the amount paid for the warrant. While you can lose your entire investment in the warrants, you have to compare that loss to the size of the exposure the warrant holding gave you, and what an equivalent exposure in the underlying instrument would have cost.

Example

If you buy 1,000 XYZ call warrants which have a current market price of $0.50 per warrant, then the maximum amount you can lose is $500 (i.e. $0.50 x 1000)*.

However, these warrants may give you exposure to $10,000 (say) of XYZ shares, so a similar exposure in the shares would cost you $10,000. If the share price dropped significantly you could lose far more than the $500 you invested in the warrants.

(*excluding transaction costs when you purchase the warrant)

Market exposure

Some warrants such as index, warrants over ETFs and basket warrants, offer you the opportunity to profit from movements in the market or in a sector without necessarily owning a large portfolio, which effectively tracks the market or sector. International index warrants, international equity warrants and currency warrants allow you to gain exposure to overseas and other markets. Some warrants and structured investment products may also give you exposure to overseas underlying assets, such as shares, ETFs, indices and debt.

Tailored to meet specific requirements

Warrant issuers have flexibility in structuring warrants which allows a warrant series to be tailored to the investment needs of a particular kind of investor. For example, index warrants may appeal to investors looking to profit from moves in a particular index over a short period of time, while endowment warrants may appeal to investors looking for long term exposure.

Tax effectiveness

Some products, such as instalments and endowments, offer tax effective benefits to investors. The disclosure document will contain information on tax considerations.

Benefits within SMSFs – earnings and contributions offset

Along with being an eligible form of gearing within a self managed super fund, instalments may also provide additional benefits for SMSFs. The enhanced income and franking credit stream and the potential deductibility of prepaid interest can be used to offset tax on other income earned by the fund, and tax payable on contributions made to the fund.

Risk with warrants

There are certain risks involved in investing and trading warrants. This section outlines some of the general risks associated with most warrants, but it does not deal with all aspects of risks associated with warrants. Different warrant series will have specific risks and different risk profiles. You should only invest in warrants if you understand the nature of the products (specifically your rights and obligations) and the extent of your exposure to risk. Before you invest you should carefully assess your experience, investment objectives, financial resources and other relevant considerations and discuss these with your accredited derivatives adviser. You should not rely on this booklet as a complete explanation of the risks of investing in warrants.

Issuer risk – ASX is not a guarantor

While ASX provides the platform for warrants to be traded, neither ASX nor its subsidiaries in any way guarantee the performance of the warrant issuer or the warrants issued.

Each warrant is a contract between the warrant issuer and you. You are therefore exposed to the risk that the issuer (or its guarantor, where relevant) will not perform its obligations under the warrant. You must make your own assessment of the credit risk associated with dealing with the warrant issuer.

Warrant issuers are not covered by margins or other forms of security lodged with ASX, ASX Clear, or any other party. The risks associated with issuing warrants are managed entirely by the warrant issuer. Covered warrants allow the issuer to reduce this risk by placing the underlying instrument in a cover arrangement to meet its obligations under the warrant.

To help you evaluate the ability of an issuer to meet its obligations, the disclosure document contains information on the financial situation of the issuer and guarantor (if applicable). Some issuers are listed on ASX and therefore provide this information to the market on a regular basis.

General market risks

The market price of warrants is affected by the same risks that affect all stock market investments such as movements in domestic and international markets, the present and anticipated economic environment, investor sentiment, interest rates, exchange rates and volatility (see the later discussion for the impact of volatility on warrant prices). Principally if the direction of the underlying instrument does not fulfil your expectations, the warrant will not perform and lead to limited losses compared to holding the underlying instrument.

Limited life

Most warrants have a limited life. On expiry warrants cease trading and can no longer be exercised. It is possible a warrant will expire without your expectations being realised. You should make an assessment whether the warrants you have selected have sufficient time to expiry for your market views to be realised. The different types of warrants offer you the choice to select the most appropriate warrant for your investment time horizon. For example, a trading-style warrant may suit a short term view while an investment-style warrant may suit a medium to long term view.

Also, the value associated with the life of the warrant (such as funding cost or time value) will decay. Upon expiry, the value remaining will be the intrinsic value. If the warrant is not sold or exercised prior to expiry and has intrinsic value, the issuer is required to provide the holder with an Assessed Value Payment (AVP) (see the Trading and settlement section).

Leverage risk

As well as being a benefit, leverage is also a risk of warrants. This concept is discussed in the **Benefits of warrants** section.

Currency risk

International equity warrants and index warrants may give rise to foreign currency risk. In the case of index warrants this currency exposure may arise where the index multiplier is denominated in foreign currency. Likewise, international equity warrants may give rise to currency risk.

Liquidity risk

This is the risk that you may not be able to sell your warrants for a reasonable price in the market. This could be because there are insufficient orders to buy your warrants, or the price at which others are prepared to buy them is very low. In some cases a lack of liquidity in a warrant series may be due to a lack of liquidity in the underlying instrument. Refer to discussion in the section **Trading and settlement – Market making and liquidity**.

Suspension from trading

ASX may suspend or remove a warrant series from trading; for example, if the warrant issuer is unwilling, unable or fails to comply with the ASX Operating Rules. ASX may also suspend trading in warrants in the interests of maintaining a fair and orderly market and to protect investors. In almost all circumstances, a warrant will automatically be suspended if the underlying share is suspended.

Early termination or expiry

In certain circumstances a warrant may terminate or lapse before the expiry date. An example would be where an extraordinary event occurs or some barrier levels are triggered. Barrier levels are discussed in the **Warrant features** section of this booklet. Issuers reserve the right to nominate extraordinary events which may result in the early expiry of the warrant series with the consent of the ASX. These events may vary depending on the type of warrant. Examples of the possible extraordinary events include:

- the suspension of trading in the warrant (except if it is caused by the issuer);
- the suspension of trading in the underlying securities;
- the de-listing of the underlying company;
- compulsory acquisition of the underlying securities following a successful takeover bid.

What actually happens when an extraordinary event occurs depends on the type of warrant in question and the terms of issue for that series. The expiry date may be brought forward or the warrants may simply lapse with a payment in certain circumstances.

Extraordinary events should be taken into consideration when assessing the merits of a warrant. For information on the treatment of extraordinary events view the warrant Product Disclosure Statement.

National guarantee fund not a guarantor in all cases

The National Guarantee Fund (NGF) is a pool of assets that is available to meet valid claims arising from dealings with brokers in certain circumstances. Under certain circumstances you may be able to claim against the NGF in relation to secondary trading in warrants on the stock market conducted by ASX. Claims can in no way relate to the primary issue of the warrants or the settlement obligations of the issuer arising from the exercise or lapse of the warrant.

Warrant issuers and the Disclosure Document

Who issues warrants?

Warrants may only be issued by institutions that meet the eligibility criteria set out in the ASX Operating Rules. In general terms, institutions eligible to issue warrants must:

- be subject to the Banking Act; or
- be a government; or
- have an Australian Financial Services Licence (AFSL) (or overseas equivalent), an investment grade credit rating, and sufficient net tangible assets; or
- have a guarantor that meets any of the above categories; or
- issue fully covered warrants.

In addition, other institutions which are not objected to by ASX and the Australian Securities and Investments Commission (ASIC) may also issue warrants.

A list of all warrants and warrant issuers is available at **www.asx.com.au/warrants.**

A list of all warrants and warrant issuers is available on the ASX website. Go to www.asx.com.au/warrants

Disclosure Documents

Warrant issuers are required to produce a disclosure document for warrant series. A disclosure document sets out information for investors to assess the risks, rights and obligations associated with the warrant and the warrant issuer's capacity to fulfil its obligations. A disclosure document must be given to all persons offered or invited to subscribe for the warrants.

The disclosure document will contain the terms of issue of a warrant series. The terms of issue are the contractual rights and obligations of both the issuer and warrant holder. In addition to the terms, the issuer may have other obligations, for example, under the ASX Operating Rules.

You are encouraged to read the relevant disclosure document and terms of issue document before investing in a particular warrant series. Disclosure documents are available on the ASX website **www.asx.com.au/warrants** when you look up a warrant price.

Important

While ASX considers a proposed warrant series as part of an application for admission to trading status, ASX does not warrant the accuracy or truth of the contents of the disclosure document. Admission to trading status should not be taken in any way as an indication of the merits of the particular warrants or issuer.

Neither ASX, its subsidiaries, and the National Guarantee Fund in any way guarantees the performance of the warrant issuer. You must independently assess the credit worthiness of the warrant issuer.

Trading and settlement

Secondary trading of warrants

Warrants are traded on the ASX's trading system, just like shares, and are subject to its dealing rules.

Warrant codes

All warrants have a six-letter code. For example, the code BHPZZA represents a warrant issued by RBS Group (Australia) Pty Ltd over the ordinary shares of BHP Billiton Ltd.

- The first three characters of the code identify the underlying instrument. For most equity and instalment warrants this will be the same as the three letter ASX code of the underlying company shares.
- The fourth character of the code identifies the type of warrant (see table on right hand side).
- The fifth character of the code identifies the warrant issuer. See page 30 for a list of unique warrant issuer codes.
- The sixth character of the code identifies the particular warrant series. For trading-style warrants the range A to O is reserved for call warrants, while the range P to Z is reserved for put warrants. In addition, the range 1 to 6 is reserved for call and put warrants.

Please note that ETOs and other securities traded on ASX may also be represented by a six-letter code (and their codes may not follow the same format as a warrant). Therefore, not all six-letter codes relate explicitly to a warrant.

Market making and liquidity

The ASX Operating Rules are intended to promote a liquid market in which warrant holders can sell their warrants. The rules seek to do this by requiring the issuer of each warrant series to:

- ensure that the warrant series has an initial spread of holders that, in the opinion of ASX, is adequate and reasonable; or
- "make a market" in the warrant series on an ongoing basis, by ensuring that a reasonable bid and volume is maintained in the market for a prescribed period (90% of the time between 10:15 am and the close of Normal Trading (normally 4:00 pm) on any Trading Day), except in certain "Permitted Circumstances" (outlined overleaf).

Fourth letter of code	Description
E	Endowments
I or J	Instalments
S	Self Funding Instalments (SFIs) and Structured Investment Products (SIPs - These include longer-term investment style products)
W, V, U or T	Trading-style warrants including equity calls and puts, index calls and puts, currency calls and puts.
X, Y or Z	Warrants which have significantly different structures to any of the above. Examples include equity and index knock-out/barrier warrants, and Capital Plus Warrants.
K, L, M or Q	MINIs
D	This is a temporary code assigned to a warrant trading on a deferred settlement basis due to a corporate action, reconstruction or a rollover

If a warrant issuer satisfies ASX that the initial issue of warrants generates a sufficient spread of holders, it is not required to make a market in that series. A sufficient spread of holders demonstrates a level of interest that should ensure that there is a liquid market for buyers and sellers of the warrant series.

In most circumstances the warrant issuer elects the latter alternative, that is, to make a market in the warrant series. This means that apart from "Permitted Circumstances" (outlined overleaf), there should be a price quoted on the trading system at which warrant holders will be able to sell during most of the normal trading day.

The warrant issuer's market making obligation under the ASX Operating Rules is to ensure that a reasonable bid price and volume is maintained in the market for the relevant warrant series for the prescribed period. It is important to note that warrant issuers will normally display both bid and offer orders for most warrant series during normal trading hours.

A bid is considered reasonable for the purposes of the ASX Operating Rules if it either:

- satisfies an objective "price-volume spread" test, under which:
  - the warrant price spread must not exceed a prescribed amount (or proportion of the bid price); and
  - the bid value must not be less than a prescribed amount; or
- is otherwise considered by ASX to be reasonable having regard to a number of qualitative factors including the market conditions in the underlying instrument (or the underlying hedge instrument), consistency of warrant pricing, the nature and make up of the underlying instrument and any corporate actions or adjustments that may be occurring in respect of that underlying instrument.

A warrant issuer is not required to maintain a reasonable bid in respect of a warrant series in certain circumstances, known as "Permitted Circumstances". These include (among other circumstances) when:

- The underlying instrument (or the underlying hedge instrument) is suspended from trading, has been placed in a trading halt or is otherwise unavailable for trading;
- The warrant series is placed in any of the market session states where bids and offers for that product are not automatically matched on the trading platform or is otherwise unavailable for trading;
- The theoretical value of the warrant series is below the relevant minimum price step;
- The warrant issuer would breach laws either in Australia or a relevant foreign jurisdiction by fulfilling its market-making obligations, and has advised ASX accordingly;
- The warrant issuer or its market-making agent experiences a continued interruption to its normal operating environment that prevents it from entering market making orders in a timely and accurate manner (for example, the malfunctioning of automated market making systems); or
- In times of high volatility warrant issuers may not be able to provide a bid or offer as the volatility in the underlying instrument may make it difficult to price the warrants.

Pricing matrices

Some warrant issuers publish pricing matrices. These are tables that show what a warrant price might be for a range of given share prices. These must be treated as only indicative and relevant on the day they are published and when there has been no change in the issuer's volatility expectations for the underlying instrument.

Trading information

Twenty minute delayed trading details are available on the ASX website. To access this go to ww.asx.com.au/warrants and click on the link to Warrant Prices. Real time prices are also available from your broker or on some websites. The trading prices of warrants are published daily in a number of major newspapers. The information in the newspapers does not necessarily contain details of all relevant factors to enable you to make a decision about a warrant series.

Short selling

Short selling occurs where a person sells securities which he or she does not own at the time of the transaction. As a general rule, warrants are not permitted to be short sold in the market. This means that you must generally own a warrant before you may sell it.

Suspension from trading

Refer to discussion in the section **Risks with warrants.**

Warrant settlement – secondary trading

For secondary trading, warrants are settled through the equities settlement system, CHESS.

ASX Clear, which clears ETO transactions, is not involved in warrant transactions.

Details of warrant trades are sent to CHESS to effect settlement. For this to occur, you must be either issuer-sponsored or broker-sponsored. Your broker can help you with sponsorship arrangements.

You are required to settle your warrant transaction within the normal settlement period for a share transaction and you will receive regular statements of your warrant holdings in the same manner as share holdings. You will receive a Holder Identification Number (HIN) if you are broker-sponsored or a Shareholder Reference Number (SRN) if you are issuer-sponsored.

Warrant settlement – exercise or expiry

A warrant disclosure document will explain the requirements for a valid or effective exercise of the warrant. Generally, you will be required to lodge an exercise notice on or before a certain time. You must ensure the requirements for exercise are met to ensure the warrants are validly exercised. A failure to validly exercise (or an ineffective exercise) may mean that you are not able to insist on transfer of the underlying instrument. It should be noted that in the case of international equity warrants, transfer of the underlying instrument is likely to occur in an overseas jurisdiction. For further information, see the **Types of warrants** section of the booklet about international equity warrants.

When no exercise has occurred

If you hold deliverable warrants but do not exercise them before expiry you may be entitled to a cash payment, often called an "assessed value payment" (or AVP). The Terms of Issue of warrants may include provisions for calculation of an AVP based on the warrant's intrinsic value (if any) less reasonable costs (which may include such things as taxes and expenses). The disclosure document for a warrant will explain the calculation of the AVP for that warrant and when it will be paid.

Issuer fails to meet its obligations

When a deliverable warrant is exercised the terms of issue will provide for delivery of the underlying instrument and payment of the exercise price. If a warrant issuer does not meet its settlement obligations within 20 business days following valid (or effective) exercise, you may ask for a liquidated damages payment. Alternatively, you could pursue other legal remedies against the issuer.

Adjustments

The disclosure document may contain terms providing for adjustment to the exercise rights of warrants where there is a change to the underlying instrument. Where the underlying instrument is an equity security, adjustments generally occur where there is a corporate action such as a reduction in capital, a rights issue or reconstruction in the underlying security. In the case of index warrants, adjustments often relate to the modification or discontinuance of the index. When an adjustment occurs, the underlying parcel, the exercise price and other variables could be changed.

Warrant pricing

It is important to have some understanding of how the market prices of warrants are determined. There is no simple answer to this question and a complete explanation is far beyond the scope of this booklet. Furthermore different types of warrants may be affected more or less by certain pricing factors.

Warrant pricing is a subset of general option or derivative pricing and involves the use of complex mathematical techniques to build pricing models.

Warrants prices are influenced by:

- the price or level of the underlying instrument
- the exercise price of the warrant
- the expiry date or the time left to expiry
- the volatility of the underlying instrument
- interest rates
- dividends

The table below shows how the variable factors affect warrant prices.

Factors in pricing	Change in variable	Change in call warrant price	Change in put warrant price
Exercise Price	Increase	↓	↑
Underlying Share Price	Increase	↑	↓
Time to Expiry	Decrease	↓	↓
Volatility	Increase	↑	↑
Interest Rates	Increase	↑	↓
Dividend Expectations	Increase	↓	↑

Price or level of the underlying instrument

This is perhaps the most obvious of the pricing determinants and it is also the most important. However, a common misunderstanding is to assume that the price of the underlying is the only determinant of warrant value. It is quite possible in some situations for a share price to go up and yet the price of a corresponding equity call warrant to remain steady (or even fall in value). This could occur if one or more of the other five factors above had changed and outweighed the effect of the increasing share price. In practice, it is often changes in volatility or an impending dividend payment which causes this effect.

Delta

The rate of change of a warrant price with respect to a change in the price of the underlying instrument is called the delta of a warrant. Theoretical values for call warrant deltas range from 0 to 1 and put warrant deltas from 0 to -1.

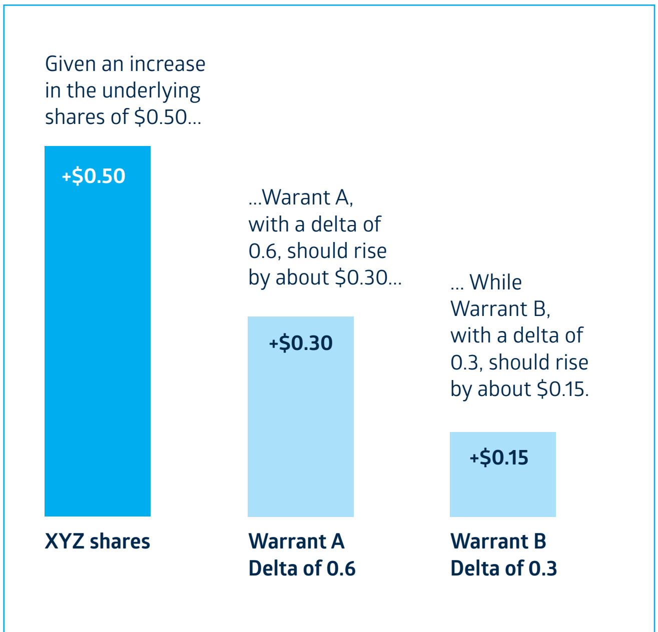
A delta of 1 means that for every 1 cent change in a share price, the warrant price also changes by 1 cent. This would be the case if the underlying share price was $10 and the exercise price of a call warrant was $5, i.e., the warrant is so far 'in-the-money' it should approximately move 1 for 1 with the share price.

A delta of 0 means that for every 1 cent change in a share price, the warrant price does not change. This would be the case if the underlying share price was $5 and the exercise price of a call warrant was $10, i.e., the warrant is so far 'out-of-the-money' that the warrant price should theoretically not move if there is a 1 cent rise in the share price. Most equity call and put warrants and index warrants are issued with an exercise price (exercise level) in close proximity to the current share price (or index level) which gives them a delta of around 0.5, i.e., the warrant is 'at the money' and the warrant price should theoretically have moved 0.5 cent for a 1 cent share price movement. Instalment warrants have higher intrinsic value and typically have deltas closer to one. MINIs will typically have a delta of 1, as they track the value of the underlying asset on a one-for-one basis

The delta of a warrant is affected by the conversion ratio, for example, a warrant with a conversion ratio of 2 will have a theoretical delta range 0 to 0.5 for a call and 0 to -0.5 for a put.

However, you should not think of fractional warrants as providing more leveraged returns or being more highly geared. They are not. When you are comparing the leverage benefits of one warrant with those of another, you should compare like with like and take into account the fact that one warrant may have a conversion ratio greater than the other.

To make things more complicated, the delta of a warrant is not a constant but also changes with the changing share price. This is called a warrant's Gamma but this is beyond the scope of this booklet.



Exercise price and expiry date

The higher the exercise price is relative to the price of the underlying instrument at the time of issue, the lower the price of an equity call warrant will be. Also, the further away the expiry date is, the more opportunity there is for the price of the underlying instrument to rise above the exercise price and so, all other things being equal, longer dated warrants are more expensive.

It is common for equity warrants to be issued with an exercise price close to the price of the underlying instrument at the time of issue. You should always consider the time to expiry of all warrants as some warrants have expiry dates of 3 months (or less) while others are long term such as 15 years.

Volatility of the underlying instrument

Volatility is a measure of the amount of movement observed in the price or level of the underlying instrument. Historical volatility is a statistical measurement that can be applied to an historical sequence of prices or levels. An instrument whose price or level has varied dramatically in the last couple of months would have a higher historical volatility measure than one whose price or level has remained relatively constant in that time. Option and warrant pricing has to take into account a trader's expectation of volatility from the time they enter the trade until the expiry of the option or warrant. Historical volatility may provide a guide to future volatility, but the market's expectations of future volatility may differ considerably from what has transpired in the past. The volatility at which a trader (or the market) is prepared to buy or sell options or warrants at any point in time, is often referred to as the implied volatility of those options or warrants.

All other things being equal, the more volatile the underlying instrument, the higher the theoretical price of the warrant. This is because the underlying price has a greater probability of moving above (for a call) the exercise price of the warrant which makes the warrant more valuable.

Interest rates

Interest rates also affect warrant pricing. For example, if you buy a call warrant you are able to defer the payment of the exercise price until expiry. This saves you the funding costs compared to buying the underlying instrument directly. When interest rates are high, there is a bigger saving, and therefore you will have to pay more for the call warrant and less for puts.

Also, the issuer has to fund its underlying instrument hedge position. When interest rates are high, this is more expensive and so the issuer has to sell the warrants at a higher price.

Dividends

The effect of dividend payments varies depending on the type of warrant, and any entitlement of the warrant holder to receive dividends paid on the underlying instrument. Even in the case of warrants where holders are not entitled to receive dividends paid on the underlying instrument, the warrant price may still be influenced by changes in dividend expectations.

Call warrant prices fall and put warrant prices rise when a dividend is above market expectation. It is also relevant to consider whether the warrant is American or European. You should ask your accredited derivatives adviser about the impact of dividends.

Exchange rates

Exchange rate movements can affect the pricing of certain warrant types (even when the underlying instrument is not a currency warrant). These include international equity warrants, international index warrants and currency warrants.

Other influences on price

For some warrant types, the theoretical option value is less important in determining price than other specific factors. For instance, the price of an instalment warrant is closely related to the present value of the loan component of the instalment.

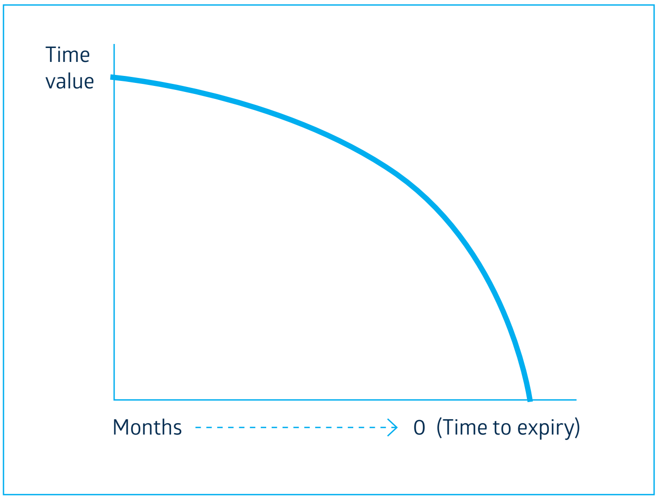
Other non quantifiable factors, such as supply and demand, investor sentiment, and general market expectations, can also influence the market value of all warrants (just like they do in any market). A warrant issuer may be able to influence the warrant price (because, for example, it holds a large percentage of the warrants on issue and makes a market in the warrant series).

Time value and intrinsic value

The price determinants discussed above give a theoretical value for a warrant. This may be the basis for the market value that an adviser quotes you. It may also take into account other non quantifiable factors. The market value of a warrant price can be divided into two components – intrinsic value and time value.

The intrinsic value of a warrant is the difference between the exercise price of the warrant and the market price of the underlying instrument at any given time. If this number is less than zero, the warrant is said to have no intrinsic value.

The time value is the remaining value that has been attributed to the warrant by the market, ie. the market price minus the intrinsic value of the warrant. Time value takes into account all the factors discussed above and represents the possibility that the market may move so that the warrant is in-the-money. Obviously, the closer you get to the expiry date, the less likely it becomes that the market will move in your favour and so time value drops. This is called time decay, and it does not happen at a linear or even rate. As a rule of thumb, a trading warrant will lose 1/3 of its time value during the first half of any given time period and 2/3 during the second half. For some warrants, like instalments, the (funding cost) time value makes up a much smaller component of total value than for other warrants such as equity warrants. MINIs do not have a set expiry date. Time value therefore has a limited impact on the value of a MINI.



Where to start

Further education/information

The ASX website provides a number of resources, educational materials and information on warrants: **www.asx.com.au/warrants**

You can obtain information on:

- online warrants course
- trading and market information
- warrant strategies
- portfolio studies
- links to warrant issuers' websites.

Accredited derivatives advisers

Australian Securities and Investments Commission (ASIC) requires brokers who advise clients in ETO and warrants strategies to have completed the Accredited Derivatives Adviser program. You can ask your broker if they or their colleagues have this accreditation status before they assist you with options and warrants investment strategies.

You should understand the details for the particular warrant series you wish to invest in. We strongly recommend you read the disclosure document and the terms of issue of the warrant series to find out about your rights and obligations in relation to the warrant series. Your broker should be able to provide you with a summary of specifications for all warrants currently available for trading. Alternatively, you can download a list of warrant series from **www.asx.com.au/warrants**.

Warrant client agreement form

Before you buy your first warrant via a particular broker you will be required to sign a Warrant Client Agreement Form saying you have received and read a copy of this booklet. A Warrant Client Agreement Form is not required for on-market transactions to sell warrants.

You can place an order for warrants with any broker, however you should only receive advice from an accredited derivatives adviser.

Incentive payments

Warrant issuers may have arrangements in place whereby financial or other incentives are provided to brokers in relation to the sale of that issuer's warrants. Brokers are required to disclose to you any commission, fee or other benefit which may influence their investment recommendation. You should be aware of this and feel free to ask your broker whether incentive payments are being made by the warrant issuer to the broker.

Subscribing for warrants

You may also be able to apply for warrants to be issued to you by the issuer by completing an application form attached to the disclosure document (the primary issue). It is common for investors to subscribe for investment-style warrants in this way, whereas trading-style warrants will generally be bought on the secondary market.

Product matrix

Warrant type by Issuer	Investment						Trading						Knockout	
	Ordinary Instalments	Rolling Instalments	Self Funding Instalments	Instalment MINIs	Bonus Certificates	Structured Products	Equity	Index	Mini	Currency	Commodity	International	Equity	Index
Citi	■	■	■	■	■		■	■	■	■	■		■	■
CBA	■	■												
Macquarie			■									■		
RBS	■		■			■								
UBS	■	■	■			■	■					■		
WBC	■		■											

Issuer contact details

Investors can request information about specific financial products on offer or visit the issuer website for further information. The Issuer Letter in the table below denotes the fifth letter of the ASX code for a warrant issuer.

Letter	Issuer	Contact	Website	Recent Announcements
O	CitiWarrants (Citigroup Global Markets Aust Pty Ltd)	1300 30 70 70	www.citifirst.com.au	CTW
Y	Commonwealth Bank Australia	1300 786 039	www.commbank.com.au/warrants	CBA
M	Macquarie Bank Ltd	1800 990 107	www.macquarie.com.au	MBL
Z	RBS Alternative Investments (Aust) Pty Ltd	1800 450 005	markets.rbs.com.au	ABM
R	Royal Bank of Scotland plc	1800 450 005	markets.rbs.com.au	RBS
S	UBS AG	1800 633 100	investments-au.ubs.com/	UBS
U	UBS Investments Australia Pty Limited	1800 633 100	investments-au.ubs.com/	UIA
W	Westpac Banking Corporation Ltd	1800 990 107	www.westpac.com.au/ structuredinvestments	WBC

Glossary of terms

ASX CLEAR
This stands for ASX Clear Pty Limited ABN 48 001 314 503 which is the clearing and settlement facility for ASX's Options market.

American style
Type of exercise style which allows the holder to exercise the warrant at anytime up to and including the expiry date.

CHESS
This stands for Clearing House Electronic Sub register System and means the system established and operated by Australian Settlement Transfer Corporation (ASTC) for the clearing and settlement of CHESS approved securities, the transfer of securities and the registration of transfers.

Delta
The rate of change of a warrant price with respect to a change in the price of the underlying instrument.

Derivative
An instrument which derives its value from the value of an underlying instrument (such as shares, share price indices, fixed interest securities, commodities, currencies, etc.). Warrants and options are types of derivatives.

Disclosure document
The document prepared by the warrant issuer which is dispatched to prospective subscribers of a warrant series. Disclosure documents are also known as either a product disclosure statement (PDS) or an offering circular.

European style
Type of exercise style which allows the holder to exercise the warrant only on expiry day.

Exchange traded options (or ETOs)
Options which are bought and sold in the options market operated by ASX.

Hedge
A transaction which reduces or offsets the risk of a current holding. For example, a put warrant may act as a hedge for a current holding in the underlying instrument.

In-the-money
When the exercise price is below (call) or above (put) the price of the underlying instrument.

Issue Price
The amount a person pays to subscribe for a warrant. May also be called 'premium'.

ASX Trade
ASX Trade is the name of the computerised trading system used by ASX to trade equities, options, warrants, interest rate securities and some futures.

Out-of-the-money
When the exercise price is above (call) or below (put) the market price of the underlying instrument.

Primary issue
The issue of the warrants by the warrant issuer to subscribers in the primary market.

Secondary market
The trading of warrants on ASX Trade after the primary issue.

Terms of issue
The rights, conditions and obligations of the warrant issuer and the warrant holder. These terms are contained in the disclosure document.

Volatility
A measure of the amount of movement observed in the level of the underlying instrument over a period of time.

Warrant code
A six letter code assigned to a warrant by ASX to identify it on ASX Trade.

Warrant issuer
The institution that issues the warrant.

Warrant series
All warrants with the same terms of issue and underlying instrument and having the same warrant issuer, exercise price, expiry date and settlement procedure. Each warrant series has a separate warrant code.

Further sources of information

Explanatory booklets and other information is available on the ASX website – **asx.com.au/warrants**:

- free online classes
- trading information and tools
- ASX trading codes and prices for warrants
- links to warrant issuers' websites (disclosure documents, pricing calculators)
- face to face seminars
- a range of free booklets: various warrant Fact Sheets, Taxation Treatment of Warrants

Online warrants class

The ASX instalment warrant classes have been designed to assist and educate all forms of investors, from the beginner to the advanced. The classes have been structured to cover all aspects of the warrants market and allow you to progress through all topics or select a particular topic of interest. Also included in the courses are a series of interactive exercises, diagrams and questions that will assess your progress and aid your learning and development.

Contact details

ASX Customer Service 131 279

Email

info@asx.com.au

ASX warrants

20 Bridge Street, Sydney NSW 2000

Website

www.asx.com.au/warrants

Register your interest for upcoming warrants events at www.asx.com.au/keepmeposted

This brochure and other fact sheets are available online at **www.asx.com.au** or call ASX on 131 279.

INVESTING IN WARRANTS

What you need to know before you start.

This Booklet is issued by Chi-X Australia and is an Explanatory booklet for the purposes of rules 3.1.2 and 3.1.8 of the Market Integrity Rules (Chi-X Australia Market)

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CONTENTS

About this booklet

This booklet provides an overview of warrant types and the key risks associated with investing in warrants. However, this booklet should not be used as a substitute for your own research and, in particular, reading the relevant product disclosure statement (PDS) for any warrant you are considering.

What is a warrant?

Warrants are financial instruments that provide the holder with exposure to the value of another asset such as a security, an index, a commodity, a currency or an interest rate (the underlying asset).

In Australia, warrants are traded on regulated markets and warrant Issuers must meet minimum requirements before they are eligible to issue the warrants that are traded on those markets. A warrant that is able to be traded on a regulated market is "quoted" on that market.

Depending on the warrant, exercise/settlement may involve physical delivery of the underlying or it may involve cash settlement.

Warrants are often geared or leveraged instruments which means that you can obtain exposure to the underlying asset for a smaller portion of capital than buying the underlying asset outright. The price of a warrant typically moves proportionally more than the underlying asset which can have a positive or negative impact for an investor. As geared or leveraged instruments, warrants may expose investors to higher risk than outright purchase of the underlying asset.

New warrant types are developed periodically – the Issuer's product disclosure statement (PDS) will include comprehensive information on the product.

The Chi-X warrant market

There are two regulated markets in Australia that quote and trade warrants - Chi-X Australia (Chi-X) and ASX Limited (ASX).

Chi-X is a regulated market that is able to quote and offer trading in the complete range of warrants. Investors can purchase warrants quoted by Chi-X direct from the Issuer or its agent or they can purchase warrants on the secondary market operated by Chi-X.

The actual warrants series available on Chi-X and ASX may differ but the types of warrants are common to both markets. The trading mechanism and the clearing and settlement of warrants are the same irrespective of the market you trade on.

> If you buy a warrant on one market you must sell it on the same market.

However, it is important to note that warrants are not fungible between regulated markets - a warrant quoted on Chi-X will not be able to be traded on ASX.

Why do people invest in warrants?

Warrants can appeal to investors looking for the potential to increase their profits.

> Gearing can provide greater exposure than an outright purchase

Gearing can provide greater exposure than an outright purchase of the asset underlying a warrant.

Some investors prefer to invest in instalment warrants that receive dividends and franking credits paid by the underlying asset. Having not paid the full price of the underlying asset at the outset the holder hopes to achieve an enhanced income stream.

Some investors use instalment warrants as a way to release cash from an investment they hold but still keeping their exposure to that asset's capital growth and income. This is referred to as "cash extraction". Cash extraction is not a strategy available to self-managed superannuation funds (SMSFs).

Some trading warrants which appreciate in value as the underlying asset falls in value, may be used to either profit from a negative view or to protect the value of a holding in that underlying asset, should the price of that asset fall.

SMSFs are limited in their ability to obtain geared exposure to investment assets. Warrants are instruments that some SMSFs invest in to obtain geared investment exposure provided appropriate arrangements are in place. Advice should be sought before investing in warrants on behalf of a SMSF.

Are you suited to investing in warrants?

Warrant investing involves many considerations - the choice of underlying asset, the warrant type, and the choice of warrant series within that type. Understanding pricing variables and knowing how to manage the key risks are necessary skills for prudent investing in warrants. Warrants do not suit all investors. As a generalisation, experience in investing and some familiarity with leveraged investing can be beneficial to the prospective warrant investor.

Warrant investors will often be experienced investors

A psychological element often overlooked is the matter of decision-making. There are a lot of decisions to make, on an ongoing basis, and people who prefer to make few decisions, who prefer to be hands off may be less suited to investing in warrants. Prudently managing investments in warrants requires a high level of engagement.

You should read the Product Disclosure Statement in its entirety before investing in a warrant.

What are the main risks?

Warrants have a range of risks which vary between warrant types

Warrant holders are exposed to the *risk of adverse change in the value of the asset underlying* the warrant. This might be due to general market conditions or the sector relevant to the underlying asset. In addition there is specific risk to do with the performance of the underlying asset itself.

Leverage is an advantage of warrants in that it offers the possibility of magnified returns. But it is also a risk as an adverse movement in the price of the underlying asset can result in a magnified adverse movement in the price of the warrant. Some warrants include features intended to mitigate this risk. As the holder of a warrant you need to manage the risk of leverage and/or geared exposure to any adverse change in its value.

Some warrants, but not all warrants, have a *limited life* and, of those that have an expiry date, some are shorter dated and some are issued with longer dated expiries. You will need to take account of the *timing for your particular market view* as it will be of no benefit if your market view proves to be correct after the warrant has expired.

All exchange traded instruments are subject to *liquidity risk* in that the *market price* may be affected by supply and demand at any given time. In the case of warrants, this liquidity risk applies not only to the market for a warrant but also the market for the underlying instrument and other instruments used by market makers to hedge their exposure.

Some warrants, but not all warrants, with expiry dates are regarded as wasting assets because the *"time value" component* in their price declines as the instrument approaches expiry. This can be a significant influence on the price of an affected warrant. You should read the relevant PDS.

The price of some warrants, but not all warrants, is affected by *volatility*, both general market volatility and volatility relating to the price of the asset underlying that warrant. Again, please read the relevant PDS.

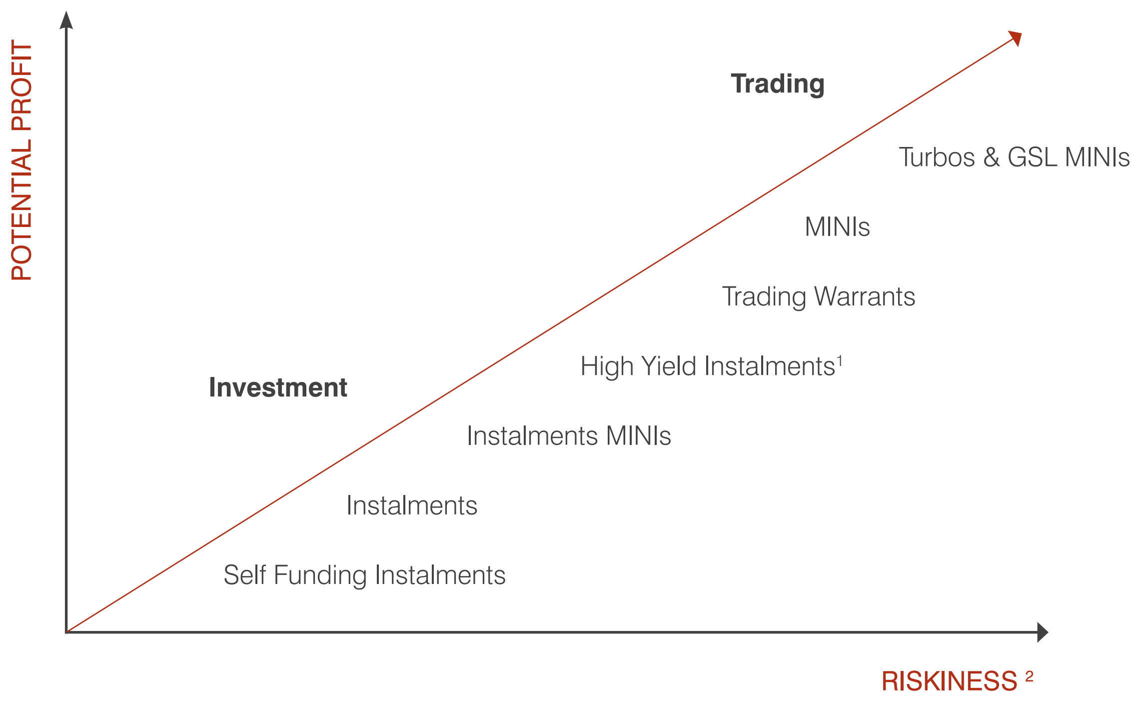
Some warrants include a *stop loss feature* that can mitigate loss but if the underlying asset's price hits the stop loss level the warrant will expire and, depending on the level of the stop loss, investors may be left with an investment with zero value. Furthermore the stop loss level may change over the life of the warrant.

Currency risk can apply to your warrant if it is based on an overseas asset. For example a warrant over an American share price index is likely to use a contract multiplier denominated in US dollars. Your currency risk arises when the US dollar value is converted into local currency.

Warrants are issued by financial service providers who contract to meet certain obligations under the terms of the warrant. This means there is a risk associated with the ability of the Issuer or its Guarantor to fulfil its obligations at expiry of the warrant. It follows that part of your investment decision should be an assessment of the *creditworthiness of the Issuer* and/or its Guarantor.

Some warrants have a feature that causes the warrant to lapse in certain circumstances. Others have a maximum pay out and there is a range of *extraordinary event* scenarios that, if triggered, can affect your investment. Given this, it is essential that you have a full understanding of the terms of a warrant before investing and you should not assume that the terms of one warrant are identical to those of another warrant. The full terms of a warrant including extraordinary event scenarios will be set out in the warrant's product disclosure statement (PDS).These can be accessed from the Chi-X website and the relevant Issuer's website.

As a broad rule of thumb, the relative potential for profit and "riskiness"[2] of each type of warrant is outlined below.



[1] A high-yield instalment is one with a gearing over 70%

[2] Riskiness as measured by the likelihood and magnitude of loss. Specific terms pertaining to each warrant – such as time to maturity, volatility, strike levels etc. – should be evaluated by individual investors prior to making an investment decision.

What warrants can I invest in?

At any given time a range of different warrants will be available. You can check on the Chi-X website for the current list of warrants available on Chi-X.

> You should not assume the terms of one warrant are the same as another

There are 2 broad categories of warrants. **Trading style warrants** have features that better lend themselves to shorter term trading. **Investment style warrants** are typically held for longer although they can also be traded actively.

Before we look into the types of warrants you can invest in, here are some high level features.

- All warrants have an underlying asset - it can be a security, a share price index or an instrument based on an index, a foreign exchange rate, a commodity or other asset.
- Trading warrants are typically cash settled and investment style warrants are typically deliverable which means you have the right to purchase/sell the underlying asset.
- Some warrants have an expiry date which is the last day that a warrant can be exercised.
- Warrants have a conversion ratio which tells you how many warrants you must hold if you want to buy/sell the underlying by exercising your warrants.
- Index warrants and warrants over commodities or foreign exchange rates have a contract multiplier which is used to calculate the value of the warrant. The multiplier may be denominated in a foreign currency.

Trading style warrants

If you are looking to make a leveraged profit based on your view on the future price of an asset you could consider the various types of trading warrants. Geared exposure can be achieved because you pay only a proportion of the price of the underlying asset to gain exposure to that asset.

The price of the warrant will change as the price of the underlying fluctuates.

MINIs

MINIs have no expiry date - you can exit your position by selling on-market. Options pricing does not apply so the price of MINIs is not subject to time decay.

MINIs are cash-settled, leveraged instruments that typically track movement in the price of the underlying asset on a one-for-one basis.

MINIs have no expiry date

MINI longs (sometimes shown as MINI calls) benefit from a rise in the price of the underlying and MINI shorts (MINI puts) benefit from a fall in the price of the underlying.

The value of a MINI will generally be the difference between the share price and the strike price. The exercise price (strike price) changes every day, it is not fixed.

Single stock MINI Long = share price – strike price.

Single stock MINI Short = strike price – share price.

A range of MINIs is available with differing levels of leverage. You can work out how much leverage a MINI offers by comparing the strike price of the MINI with the price of the underlying. Issuer websites usually have the current leverage for all their MINIs.

MINIs longs provide exposure to a rising market, MINI shorts to falling markets

MINIs held overnight incur a funding cost effected by an adjustment to the strike price of the MINI. For MINI longs the funding cost is *added* to the strike price and, in a low interest rate environment, for MINI shorts it is *subtracted* from the strike price. Should interest rates rise, there would come a point where the funding cost gets added to MINI shorts.

MINIs include a built-in stop loss feature that is set above the strike price for MINI longs and below the strike price for MINI shorts. The stop loss trigger level is adjusted each month to take account of funding accruals. Stop loss levels are also updated for any corporate actions events or the roll of underlying futures contracts for index and commodity MINIs.

If a stop loss is triggered, your MINI will be suspended. The remaining value of the MINI will be determined and a bid price will be established for those wanting to exit their position from 2pm the next trading day and all day the following trading day.

Stop loss trigger levels are adjusted each month

Following is an example of a MINI over a share in XYZ Company. If the MINI was over an index, currency or commodity or foreign exchange rate a multiplier would be applied to establish contract value.

Example: ABC stock trading at $20.00

MINI long over company XYZ, current strike $15.00 stop loss $17.00

Expiry: there is no expiry, to liquidate your holding you must sell on market.

MINI long price: $5.00 (current share price – current strike price)

Stop loss: if the underlying drops to $17.00 or lower, trading in the MINI is halted and a bid price will be established at the remaining value of the MINI. You can trade out on-market but, if you don’t, the remaining value is paid to you by the Issuer

Guaranteed stop loss (GSL) MINIs

A variant on the MINI is the guaranteed stop loss (GSL) MINI.

GSL MINIs are more highly geared than MINIs and appeal to active traders. With GSL MINIs the stop loss is set at the strike price so, if the share price drops below the strike, the MINI will terminate automatically. GSL MINIs terminate at zero value because the stop loss is set at the strike price.

GSL MINIs are more highly geared

As with all stop losses, once you are "stopped out" you have no opportunity to participate in any recovery. Also the guaranteed stop loss comes at a cost - the Issuer includes a "gap premium" based on the Issuer's assessment of the risk taken in providing the guaranteed stop loss. The gap premium is added to the cost of the GSL MINI.

Examples of pricing for MINIs and GSL MINIs

MINI long over company ABC

The cost of your guaranteed stop loss is paid via the gap premium reflected in the price of the GSL MINI

ABC trading at $45.00

MINI long strike $35.00

MINI long price $10.00 (current share price – strike price)

MINI short over company ABC

ABC trading at $45.00

MINI short strike: $55.00

MINI long price: $10.00 (strike price – current share price)

GSL MINI long over company XYZ

XYZ trading at $3.00

GSL MINI long strike $2.80

***Gap premium $0.06**

GSL MINI long price - $0.26 (current share price – strike price) + gap premium

GSL MINI short over company XYZ

XYZ trading at $3.00

GSL MINI long strike $3.20

***Gap premium $0.06**

GSL MINI long price - $0.26 (strike price – current share price) + gap premium

*The gap premium is for illustrative purposes only. Gap premium will vary according to the Issuer's assessment of the risk associated with providing a guaranteed stop loss.

Turbo warrants

A product that preceded the MINI and the GSL MINI is the Turbo warrant – another product aimed at confident traders seeking enhanced leverage. Turbos can be characterised as high risk / high reward.

Turbos have a barrier (or knock-out) feature which, if triggered, terminates the product rendering the investment worthless. Given the knock out feature, investors in turbos are typically active and confident traders willing to quickly adjust their positions.

Call and put warrants

Call and put warrants have an options structure and options pricing applies.

> Options pricing applies to call and put warrants

Call warrants give the holder the right to buy the underlying asset at a specified price. Put warrants give the holder the right to sell the underlying at a specified price. The specified price is referred to as the exercise price or the strike price. If the exercise price of a call warrant is low then the intrinsic value of the warrant will be higher and this will be reflected in its market price. The opposite applies to put warrants.

If you hold a bullish view it could be acted on with call warrants which give you the right to buy the underlying. If you hold a bearish view or you are looking to hedge an asset you might consider using put warrants which give you the right to sell the underlying.

Call and put warrants have a conversion ratio which determines how many securities the warrant entitles you to buy/sell. The conversion ratio could be 1 for 1 or more commonly a fraction of a share. A warrant with a higher conversion ratio will usually make the market price of these warrants cheaper. This is because a holder wanting to physically buy or sell the underlying will need enough warrants to convert into whole units of the underlying. Conversion ratios can be found on Issuer websites or on the Chi-X website.

Call and put warrants may be deliverable (on payment of the exercise price you can physically buy/sell the underlying) or they may be cash settled (the difference between the exercise price and the settlement price is exchanged). Index call and put warrants are cash settled whereas call and put warrants over securities in listed companies are usually deliverable.

Call and put warrants have expiry dates and their price has two components. The intrinsic value in a call or a put reflects the difference between the strike price of the warrant and the current market price of the underlying asset.

Time value reflects the potential for a warrant to become more or less valuable in the time remaining until the warrant's expiry. The time value component in call and put warrants declines over time. As expiry approaches the time value in the warrant diminishes. Generally speaking, the time decay of a warrant will result in a put or a call warrant losing two thirds of its value during the last third of its life.

After expiry, call and put warrants lapse.

Investment style warrants

Investment style warrants tend to be longer dated and traded less actively than trading style warrants. This is because holders often employ strategies associated with the accumulation of dividend income, so the investment style warrants need to be held for long enough to qualify for dividend payments.

Instalment warrants

Instalments are often referred to as simply "instalments". Although also traded for profit, a popular strategy for using instalments is to maximise dividend income. There are also variants such as instalment MINIs, rolling instalments and self-funding instalments.

> A popular strategy with instalments is to enhance dividend income

Instalments involve 2 payments. The first instalment is the market price. It is a variable amount depending on a range of pricing considerations. The first instalment can represent 20 - 60% of the price of the underlying security.

The final instalment is also referred to as the loan amount. This amount may be fixed for the term of the warrant. As a holder you can pay this second amount any time up until maturity of the instalment.

> Instalments have a funding cost which is included in the variable first payment

When instalments are issued, the underlying securities are purchased and placed in a trust or an equivalent structure. This enables dividends and franking income to be passed through to the instalment holder. The first instalment is less than the cost of buying the securities outright (varying with the leverage offered by the instalment). This means the Issuer must pay the residual amount so the securities can be purchased. It follows that the first payment and loan amount combined can be expected to be at least equal to the price of the underlying security. If interest rates are higher, the funding cost will be higher and vice versa.

Instalments are often compared to margin loans because they can be regarded as a securitised loan to buy securities. You get the right to dividends and franking credits applying to those underlying securities as well as any capital appreciation on those securities and interest charges can be tax deductible. However, a significant difference between the instalment and the margin loan is that with a margin loan you are liable for margin calls in the event of an adverse price movement that triggers the buffer level for that loan. Instalments do not have margin calls. In the event of adverse market movement you do not need to make the final payment. You will have lost what you invested but your exposure is limited to that amount.

Instalments are popular with investors looking to maximise dividend income. This is because, for a given amount, you can derive more income and franking credits by purchasing instalments than if that amount had been applied to an outright purchase of the underlying securities.

If you are investing on behalf of a self-managed superannuation fund, instalments are a means by which your fund can gain leverage in the portfolio. But seek your own advice before you do.

Pricing Factor	Change in Pricing Factor	Change in Instalment Price
Underlying Parcel Price	↑	↑
Time to Maturity	↓	↓
Interest Rate	↑	↑
Volatility of Share	↑	↑
Dividends	↓	↓

Variants on instalment warrants are available. Rolling instalments are "rolled "every 12 to 18 months typically though there may be warrants which roll at longer time periods. These allow you to get longer term exposure but your final payment (which includes funding and protection fees) only has to cover the period up to the roll date. You can make tax deductions for the interest incurred in the period up to the roll. When rolling, you will be liable for the next period of funding, which can be done by a cash payment or by a reduction in your existing holding to cover that cost.

As the price of the underlying asset changes, the gearing of an instalment may change – it may be higher or lower than the level you prefer. Reset instalments provide the opportunity to return the instalment to the preferred level of gearing. Reset dates occur at regular intervals, typically 12 months or longer.

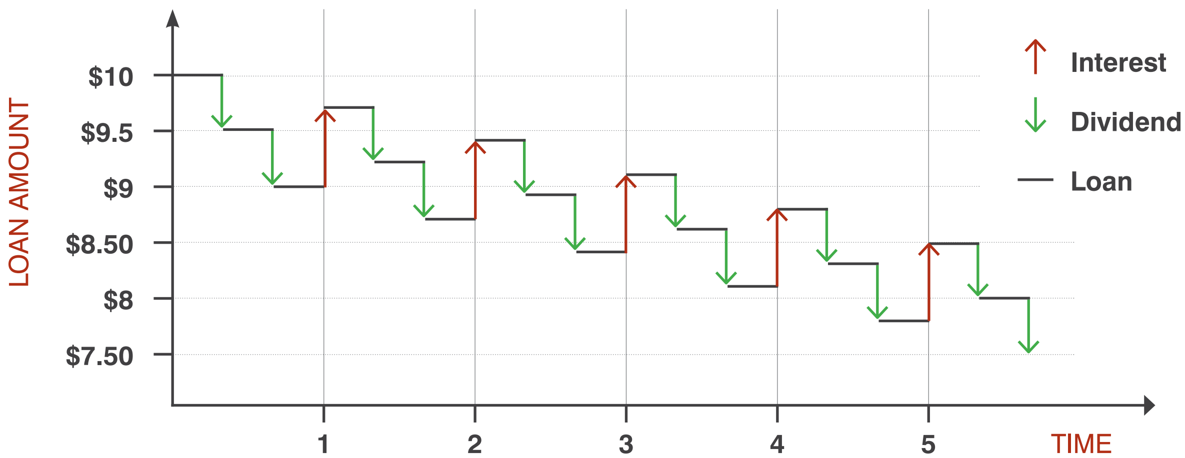
The interest amount is paid up to the reset date and the Issuer will then ask you to pay the interest and fees applying until the next reset date. An adjustment to the exercise price (if needed) will be made to restore the preferred gearing level. This could require an additional payment to be made to the Issuer or, if the exercise price is increased, a payment from the Issuer to you. Rolling instalments can also incorporate a reset feature.

Self-funding Instalments

Self-funding Instalments are called this because dividends paid by the underlying security are applied to reduce the final instalment rather than being paid to you as income.

The final instalment also includes interest payments so the extent that the instrument will be "self-funding" depends on the level of dividend income and interest payments, and the duration of the warrants. In the event that dividends exceed interest payments, the self-funding effect can be shown as follows.

This diagram is intended as an illustration only.



Instalment MINIs

A variant on the Instalment is the Instalment MINI. Since their launch these instruments have grown in popularity with investors looking for:

- medium to long term exposure to the stock market
- enhanced dividend yields and franking credits
- gearing without the risk of a margin call (depending on the warrant the gearing may range from 20 to 80%)

Unlike vanilla MINIs, instalments MINIs have an expiry / maturity date. At maturity you can pay the final instalment and receive the underlying securities, roll into another series of instalment MINIs, or walk away and receive any value remaining in the investment.

Instalment MINIs have an expiry date

An attraction for traders is a more highly leveraged instrument that includes eligibility for dividends and franking credits. Instalment MINIs are available which provide dividends and franking credits to the holder and there are instalment MINIs which apply dividends to paying off the loan amount, effectively a self-funding instalment MINI. Instalment MINIs have a stop loss feature which comes at no additional cost and works in the same way as described for MINIs. The stop loss is set above the final instalment and the stop loss trigger level is amended as the final instalment increases due to funding costs. If you hold an instalment MINI overnight you will incur funding costs.

Like MINIs, Instalment MINIs include a stop loss

As with other warrants you may be able to include instalment MINIs in your SMSF portfolio but, again, seek your own advice.

Buying and selling warrants on Chi-X

The process of buying and selling on Chi-X is similar to trading in other securities. Warrants are allocated a trading code, bids and offers are entered and orders matched in the manner that you will be familiar with when buying securities on-market.

The volume visible on screen is not necessarily reflective of the total volume available to buy and sell at a price. This is because Issuers act as, or contract the services of, market makers to provide liquidity. The arrangements between Issuers and market makers require liquidity to be maintained so that investors can have confidence that, barring an extraordinary event, reasonable prices may be available for the purpose of liquidating existing positions.

Warrants are settled through CHESS and appear on your CHESS statements. Warrants are included on a register just like other securities and you will receive correspondence from the Issuer's appointed registry.

Clearing and settlement of warrants is the same irrespective of the market you trade on.

Trading codes/symbols

All instruments traded on Chi-X have a code that uniquely identifies them. As there are many different series of warrants it is important that you have the right code for the warrant series you are interested in.

The same coding convention is employed for warrants traded on the Chi-X warrants market and the ASX warrants market.

Warrants are given a 6 character code.

The *first 3 characters* identify the underlying asset.

A warrant over BHP shares will use the stock symbol BHP for the first 3 characters.

An index warrant over the S&P/ASX 200 share price index will use the code XJO as this is the code used for this index.

The *fourth character* identifies the type of warrant

I, J – instalments and instalment MINIs

S – self-funding instalments

K, Q, M – MINIs

L – GSL MINIs

T, U, V, W - put and call trading warrants

X, Y, Z – others which includes barrier and knockout warrants / turbo warrants

The fifth character of the code identifies the Issuer. Chi-X and ASX use different characters for Issuers.

The sixth and final character uniquely identifies a particular warrant. The sixth character is also used to differentiate put and call trading warrants: A – O = Call / Long Warrant P – Z = Put / Short Warrant

A full list of the warrant series currently quoted and traded on Chi-X and their trading codes is available on the Chi-X website.

What happens when my warrant is exercised or reaches maturity?

The Issuer will advise you of the impending expiry of the warrant. The expiry notice will advise you of any choices you might have including making a final payment to purchase the underlying, receiving a cash payment for the sale of the underlying, receiving a cash payment or rolling over into another series of warrants.

If an Issuer does not fulfil its obligations within 20 business days following the valid exercise of a warrant, you may ask for the payment of liquidated damages under the Chi-X rules that apply to warrant issuers. You may also pursue other legal remedies against the Issuer.

What must I do before I can trade warrants?

Before trading in warrants, you need to consider whether you are an experienced and attentive investor with a good understanding of leveraged and/or geared investment products and the risks they pose.

Consider whether warrants suit your investment style and your investment needs

Before you can place an order for a warrant you must sign a client agreement with your broker. Included in this agreement will be a statement that you have been provided with and read an explanatory booklet on warrants.

For investors who have already been approved for investing in warrants, a new client agreement is not required. However, your broker is required to provide you with a copy of the Chi-X explanatory booklet. This can be emailed to you. Hard copies are available if you do not have email. You are not required to acknowledge receipt of the booklet.

In the case of Chi-X warrants the explanatory booklet is this document.

Make sure your adviser is accredited

You can buy and sell warrants through Chi-X trading participants.

However, if you are receiving advice on investing in warrants by an adviser employed by a Chi-X Trading Participant your adviser must be accredited before they can advise clients on Chi-X traded warrants. The required level of accreditation is Accredited Derivatives Adviser level 1, which is also known as ADA1. Ask your adviser if they hold ADA1.

For other advisers different types of accreditation are available.

Compensation arrangements

The Chi-X market operates a compensation regime that provides protection for retail investors in circumstances that are outlined in the Corporations Act. The compensation arrangements cover losses arising from defalcation or fraudulent misuse of client money, property or authority by a Chi-X participant, subject to certain exceptions. This compensation regime is different to the compensation regime applying to ASX traded warrants.

This compensation does not extend to the performance obligations of the warrant Issuer or its Guarantor including their obligations arising from the exercise or lapse of the warrants.

Issuer information

Warrant Issuers provide information on their own websites.

Information includes the product disclosure statement for every warrant series they issue, operational information and records of announcements made to the market about particular warrant series and may include educational resources for investors.

You should visit an Issuer's warrant website before you purchase a warrant. It can be helpful to also visit the Issuer's website as a warrant approaches expiry to make sure you know what your options are and the key dates associated with expiry.

chi-x® AUSTRALIA

About Chi-X® Australia

Chi-X Australia offers a valuable alternative to trading on ASX using its low latency, high performance, proven trading system. Chi-X Australia provides innovative new order types, price improvement opportunties, the potential for lower costs and a more efficient way to trade.

About Chi-X Global

Chi-X Global is driven to be an industry leader in operating trading venues and generating innovative products and services for the benefit of financial markets and the global trading community. The company believes that competition from technology-driven markets increases overall market volumes and improves investor performance, providing benefits to all participants.

Owned by a consortium of major financial institutions, Chi-X Global operates market centers in Australia, Canada and Japan. Its Chi-TechTM technology services unit provides technology to its business lines and its Chi-FXTM platform powers BM&FBOVESPA's BEI service.

The Chi-X Name

The name Chi-X is derived from the Greek letter Chi, written "X", symbolising the crossing of the two sides of a trade. Along with the "X" from the English alphabet, the name signifies a combination of the old world and modern world, or traditional securities trading techniques married with cutting-edge technology.

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PhillipCapital

Your Partner In Finance

Phillip Capital Limited

EXCHANGE TRADE OPTIONS

PRODUCT DISCLOSURE STATEMENT

6 May 2016

PART 1

Issued by: Phillip Capital Limited

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Australian Financial Services Licence No. 246827

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ISSUE DATE: 6 MAY 2016

Incorporating PART 2: SCHEDULE OF FEES

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PART 1

1 General information

1.1 Important Information

This Product Disclosure Statement ("PDS") has been prepared by Phillip Capital Limited ABN 14 002 918 247 AFSL 246827 ("PhillipCapital") in accordance with the financial product disclosure requirements under the *Corporations Act 2001 (Cth)* ("Corporations Act"). This PDS provides only a summary of the significant features and risks of Exchange Traded Options.

This PDS does not take into account your investment objectives, financial situation and particular needs. No member of PhillipCapital or its affiliates guarantees the performance of any Exchange Traded Options transactions entered into by you. Before entering into an Options transaction referred to in this PDS, we strongly recommend you seek independent advice to ensure this is appropriate for your investment objectives, financial situation and particular needs and also your personal circumstances.

We also recommend that you obtain independent taxation and accounting advice in relation to the impact of Exchange Traded transaction gains and losses on your particular financial situation. The taxation consequences of Exchange Traded Option transactions such Exchange Traded Options transactions can be complex and will differ for each individual's financial circumstances, and your tax adviser should be consulted prior to entering into any Exchange Traded Options transaction.

This PDS is an important document and we recommend that you read it in full and contact us if you have any questions arising from the PDS prior to entering into any transactions relating to this PDS.

The offer to which this PDS relates is available only to persons receiving the PDS in Australia. The distribution of this PDS in jurisdictions outside Australia may be subject to legal restrictions. Any person who resides outside Australia who gains access to this PDS should comply with any such restrictions as failure to do so may constitute a violation of financial services laws. The offer to which this PDS relates is not available to US investors.

To the extent permitted by law, neither PhillipCapital nor their affiliates accepts any responsibility for errors or misstatements, negligent or otherwise, nor for any direct, indirect, consequential or other loss arising from any use of these documents and/or further communication in relation to them.

1.2 Purpose

This Product Disclosure Statement (PDS) has been prepared by PhillipCapital, the issuer of the Exchange Traded Options and 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.

The Corporations Act requires that a retail client must be given a PDS from an AFS Licensee before the client acquires a financial product. The PDS is a document that sets out the significant features of a financial product, including its risks, benefits, costs, fees and other related information.

This PDS is designed to assist you in making an informed decision regarding whether or not acquiring the Exchange Traded Options included in this PDS is a suitable investment for you.

1.3 Information subject to change

The information in this PDS is up to date at the time it was prepared but is subject to change from time to time. When new information becomes available, if such new information is materially adverse to you, we will either issue a new PDS or a supplementary PDS containing the new information. If the new information is not materially adverse to you, we will not issue a new PDS or a supplementary PDS to you. However, you will be able to find the updated information on our website at www.phillipcapital.com.au.

A copy of the updated information is also available upon request free of charge by contacting PhillipCapital. When we use terms 'we', 'us' or 'our' in this PDS, the reference is to Phillip Capital Limited.

1.4 PDS in two parts

This PDS is in two parts. Part 1 includes all information other than the Schedule of Fees which is provided in Part 2. You should read both parts of the PDS before making a decision to trade in Exchange Traded Options and you should retain the PDS for future reference.

1.5 Products covered by this PDS

This PDS relates to Exchange Traded Options traded on the market operated by ASX Limited ACN 008 624 691 (ASX) and settled and cleared by ASX Clear Pty Ltd ACN 001 314 503 (ASX Clear)..

ETOs include:

- Equity Options: Options over quoted shares or interests in managed investment schemes of a range of different companies and managed investment schemes quoted on ASX.
- Index Options: Options over an index such as the S&P™/ASX 200™ Index or the S&P™/ASX 200™ Property Trust Index.
- LEPOs: Call Options with an Exercise Price of one cent per underlying share. In this PDS, equity Options, index Options and LEPOs are collectively referred to as Exchange Traded Options or ETOs. A list of companies, managed investment schemes and indices over which Exchange Traded Options are traded can be viewed on the ASX website at :
  http://www.asx.com.au/asx/markets/optionPrices.do

If you received this document electronically or if you received any updated or new information other than in writing, we will provide a free paper copy on request.

2. About the Issuer - Phillip Capital Limited

Phillip Capital Limited ABN 14 002 918 247 is the holder of an Australian Financial Services Licence No. 246827 and is authorised to provide financial services to both wholesale and retail clients and is regulated by the Australian Securities and Investment Commission.

Phillip Capital is a Market Participant of the ASX Limited (ASX) and is a party to a Clearing Agreement with Pershing Securities Australia Pty Ltd ABN 60 136 184 962 AFSL No. 338264 (Pershing) for the purpose of the ASX Operating Rules and the ASX Clear Rules and Pershing arranges the settlement and clearing of the Exchange Traded Options

PhillipCapital is the issuer of this PDS, and regarded as the issuer of the Exchange Traded Options contracts referred to in this PDS by virtue of technical provisions in the Corporations Act.

2.1 Advice and your Adviser

PhillipCapital does not provide personal advice in relation to Exchange Traded Options offered under this PDS. All transactions undertaken will be on a general advice or no-advice/execution only basis. Your Adviser cannot provide any legal, accounting or taxation advice.

2.2 Contact us

Our Contact details are as follows:

Name:	Phillip Capital Limited
Address:	Level 10 330 Collins Street Melbourne VIC 3000
Postal address:	PO Box 628 Collins Street West VIC 8007
Telephone:	+ 61 3 8633 9800 or Toll Free 1800 214 264
Email:	info@phillipcapital.com.au
Website:	phillipcapital.com.au

3. Exchange Traded Options Explained

3.1 Types of Exchange Traded Options

The three types of Exchange Traded Options traded on the market operated by ASX are equity Options, index Options and LEPOs. These are each discussed briefly below:

(a) **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 or provide "delivery" of the underlying financial product.

(b) **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 Price Index 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 Date (if a constituent stock does not trade on the Expiry Date, the last traded price from the previous trading day will be used). Cash settlement occurs in accordance with the rules of ASX Clear.

(c) **Low Exercise Price Options (LEPOs**) are Call Options with an Exercise Price of one cent per underlying share or in respect of index LEPOs, an exercise level of 1 point of the underlying index. In other words, they function in a similar way to equity Options, but with a very low Exercise Price. Both LEPOs and index LEPOs are “cash settled”.

3.2 Uses of Exchange Traded Options

Exchange Traded Options 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 Exchange Traded Option contract and undertake multiple positions targeting specific movements in the overall market and individual underlying shares. Index Options can be used to trade a view on the market as whole, or on the sector of the market that is covered by the particular index. The use of Exchange Traded Options 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 Exchange Traded Options involves risks which are discussed in more detail in section 7.

3.3 Understanding some concepts

Concepts which should be understood before trading in Exchange Traded Options are:

- The effect that time has on a position/strategy;
- How volatility changes, both up and down, may affect the price or value of an Option 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;
- The liquidity of an Option, the role of market makers, and the effect this may have on your ability to enter and exit a position.

Whilst this PDS provides product information including information about the risks, characteristics and benefits of Exchange Traded Options, investors should inform themselves and if necessary obtain advice about the specific risks, characteristics and benefits of the Exchange Traded Option they intend to trade and relevant ASX Rules.

3.4 ASX educational booklets

Exchange Traded Options have been traded in Australia since 1976 on the ASX. ASX has prepared a number of educational booklets relating to Exchange Traded Options. Their current booklets are available free via the ASX website at

http://www.asx.com.au/education/download-brochures.htm#options

This PDS refers to a number of ASX booklets, including:

- “Understanding Options Trading”. This booklet discusses the features and contract specifications of Exchange Traded Options, risks and advantages in trading Options and gives examples of how Exchange Traded Options work and basic option trading strategies. You can view this booklet on the ASX website at :

  http://www.asx.com.au/documents/resources/understanding-options-trading-march-2016.pdf
- “Options Strategies” – this booklet describes in more detail how Exchange Traded Options may be used in various trading strategies. You can view this booklet on the ASX website at :
  http://www.asx.com.au/documents/resources/UnderstandingStrategies.pdf
- "Margins" – this booklet explains what margins are, how they are calculated by ASX Clear and how a Clearing Participant may meet its margin obligations to ASX Clear. You can view this booklet on the ASX website at :

  http://www.asx.com.au/documents/resources/Understanding_Margins.pdf
- "LEPOs Low Exercise Price Options Explanatory Booklet" This booklet explains further the features of LEPOs. You can view this booklet on the ASX website at :

  http://www.asx.com.au/documents/resources/UnderstandingLEPOs.pdf

If you cannot access the ASX booklets via the ASX website, you may contact us to request a copy.

If you have any questions on any aspect of the booklets you should consult with us before making any investment decisions.

4. Basic Features of Exchange Traded Options

The following discussion is not intended to be a detailed discussion of the features of Exchange Traded Options, but rather to identify some of the key features of Exchange Traded Options. For a more detailed description, you should refer to the ASX explanatory booklets referred to in the previous section.

4.1 Standard Contracts

The terms and specifications of ASX's Exchange Traded Options (other than the premium, which is negotiated between the Buyer (taker) and Seller (writer)) are determined by ASX in accordance with ASX's rules. Details of contract specifications and standard features for Exchange Traded Options traded on ASX are published by the ASX on their website.

The contract specifications detail the key standard features of Exchange Traded Options traded on ASX. ASX determines the key contract specifications for each series of Exchange Traded Options.

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

- the underlying share (eg. BHP);
- whether the Option is a Call Option or a Put Option;
- the contract size (that is, the number of units of the underlying share 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 (eg. 100 BHP shares);
- exercise style – that is American style or European style;
- the Exercise Price (or Strike Price) – is the specified price at which the Buyer (taker) of an equity Option can, if they exercise the Option, buy (in the case of a Call Option) or sell (in the case of a Put Option) the underlying shares; and
- the Expiry Date.

In accordance with its Rules, ASX may make an adjustment to any of the above specifications, as discussed below in clause 4.6 under the heading Adjustments.

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 Sellers (writers) and Buyers (takers)

Every Exchange Traded Option contract has both a Seller (writer) and a Buyer (taker).

Buyers of Exchange Traded Options are referred to as “takers” as they take up the right to exercise the Option (for example, the right to exercise the Option and either buy or sell the underlying shares at the Exercise Price, in the case of an equity Option).

Sellers of Exchange Traded Options are also referred to as “writers” because they underwrite (or willingly accept) the obligations which are required to be performed on exercise of the Option (for example, to buy or sell the underlying shares at the Exercise Price, in the case of an equity Option).

4.3 Call and Put Options

Exchange Traded Options may be Call Options or Put Options. The nature of Call Options and Put Options will depend on whether the Options are equity Options or index Options.

(a) 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 assigned by ASX Clear 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 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.

(b) 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 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 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 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 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

Exchange Traded Options may be American or European exercise style. American style Options can be exercised at any time prior to and including the Expiry Date. European style Options can only be exercised on the Expiry Date and not before. Most ASX exchange traded equity Options are American style Options. ASX exchange traded index Options are European style. LEPOs are all European exercise 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 pre-determined by ASX is the price of the contract. The price, known as the "Premium" is negotiated between the Buyer (taker) and Seller (writer) of the Exchange Traded Option through the market at time of execution. The premium for an equity Option is quoted on a cents per underlying share basis so the dollar value payment is calculated by multiplying the premium amount by the number of underlying shares (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 25c 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, represents a total premium cost of $300 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, the price of the underlying share or the level of the underlying index, the volatility of the underlying share 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” available as advised in section 3 above for more information regarding the fundamentals of pricing Options.

ASX also provides a pricing calculator on the ASX website at

http://www.asx.com.au/prices/calculators.htm

You can obtain current price information from your adviser at PhillipCapital.

For further information on trading index Options and examples on how trading index Options can work for you, refer to the ASX booklet Understanding Options Trading available as advised in section 3 above.

4.6 Adjustments

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 shares, for example if the issuer makes a bonus issue, rights issue, special dividend, capital reduction or other similar event. If ASX does make an adjustment it will endeavour to do so in a way which Puts the Seller (writer) and Buyer (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 Buyers and Sellers 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. For further information regarding ASX options Adjustments you may refer to the ASX *Explanatory Note for ASX Option Adjustments* which is available on the ASX website at

http://www.asx.com.au/documents/resources/explanatory_note_option_adjustments.pdf

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. 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 (Trade day plus two business days “T+2”) following the exercise of the Option (see the discussion below under the heading "4.11 Settlement Process following exercise of Exchange Traded Option").

4.8 Expiry – Limited life of Exchange Traded Options

All Exchange Traded Options have a limited life span with an expiry month, which generally follow one of three cycles, namely:

(i) January/April/July/October

(ii) February/May/August/November

(iii) March/June/September/December.

Options expire on a specified day in the expiry month, as determined by ASX. For equity Options, the Option expires on the Thursday preceding the last Friday in the expiry 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 contract month provided that day is a business day. The ASX Clear has the right to change these Expiry Dates should the need arise.

Expiry day information is available on the ASX website at http://www.asx.com.au/about/expiry-calendar.htm

4.9 Exercise by the Buyer and assignment to the Seller

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

4.9 Automatic exercise

We will automatically exercise your taken Exchange Traded Option contract if on the Expiry Date your contract is in the money. For Call Options the Option will be in the money where the Exercise Price is below the price of the underlying shares. For Put Options the Option will be in the money where the Exercise Price is higher than the price of the underlying shares. All unexercised out of the money Option contracts will expire on the Expiry Date.

4.10 Deliverable or cash settled

Exchange Traded Options 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 share. Equity Options are deliverable, because on exercise, one party is required to transfer the underlying shares to the other at the Exercise Price. 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 and LEPOs are cash settled.

4.11 Settlement Process following exercise of Exchange Traded Option

When an equity Option is exercised by a Buyer (taker), and the exercise is assigned by ASX Clear to an open position of a Seller (writer), a contract for the sale and purchase of the underlying shares at the Exercise Price will arise between the Seller and the Buyer. 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 shares occurs via ASX Clearing House Electronic Sub-register System (CHESS) on T+2. CHESS is operated by ASX Settlement Pty Ltd, the settlement facility for ASX transactions and settlement will occur in accordance with the ASX Settlement Operating Rules. Your obligations in relation to settlement are set out in the Phillip Capital Limited terms and conditions.

Index Options are cash settled. When an index Option is exercised by a Buyer, and the exercise is assigned by ASX Clear to an open position of a Seller, the Seller 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 Price Index 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 as advised in section 3 above.

4.12 Time for payments to us

PhillipCapital and its Clearing Participant, require that you settle by 9 am on the next business day ie.T+1 (Trade day plus one business day), whether they be payments of premiums, settlement amounts or margins. Trading debits or other cash financial transactions which arise from your transactions in Options, are reflected in the terms and conditions.

Please also refer to the discussion on margins at 5.2 below.

4.13 Option contracts which are open for trading

Full details of all Exchange Traded Options listed on ASX and Expiry Date information is available on the ASX website.

A list of current option codes and delayed price information is available on the ASX website.

4.14 Opening a position

Unlike shares, Exchange Traded Options are not instruments which a person buys or sells in the ordinary sense of ownership. ASX sets the terms of the Exchange Traded Options 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 Exchange Traded Option, you have three alternatives:

- you can exercise the Option
- you can hold the Option to expiry and allow it to lapse
- 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 Exchange Traded Option, 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)
- you can close out the Option by buying an Option in the same series (provided it has not been exercised against).

4.15 Closing a position

An Exchange Traded Option 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 shares 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 option.
- 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 shares 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 option.

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

4.16 LEPOs –some distinguishing features

LEPOs (over equities) are essentially equity Options with an Exercise Price of one cent per underlying share. 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 (e.g. 100 shares per Equity LEPO contract) at a specified future date, in return for the payment of the Exercise Price (1 cent per share). The Seller (writer) of a LEPO undertakes to sell the underlying shares 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 shares if the Buyer exercises the Option. When you enter into a LEPO transaction, 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 Exchange Traded Options in a number of respects, summarised below:

- LEPOs are only available as Call Options
- LEPOs are European style Options, meaning they are exercisable only 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 shares 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 shares. In standard equity Options, the Buyer pays the premium up front and the Seller receives the premium up front
- Both the Buyer and Seller of a LEPO are subject to ongoing margining.

In summary, the premium for a LEPO will generally track the price of the underlying shares, so an investor's profit or loss will generally track movements in the underlying security on a one-for-one basis. Buying a LEPO is similar to a forward purchase of shares, while selling a LEPO is similar to a forward sale of shares.

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.

4.17 Information on trading strategies

For information and examples regarding trading strategies using Exchange Traded Options, refer to the "Pay-off" section on page 24 of the ASX booklet "*Understanding Options Trading*" available as advised in section 3 above.

5. Clearing and Settlement – The Roles of ASX Clear and the National Guarantee Fund

Exchange Traded Options are traded on the ASX's trading platform and cleared through ASX Clear which is a licensed clearing and settlement facility under the Corporations Act.

PhillipCapital's Clearing Participant, Pershing, as a Participant of ASX Clear will clear and settle all ETOs traded with PhillipCapital. In doing so PhillipCapital's Clearing Participant must comply with the ASIC Market Integrity Rules and ASX Clear Operating Rules.

5.1 The role of ASX Clear

All Exchange Traded Options traded for you by us will be cleared by ASX Clear, subject to the ASX Clear Rules. When we enter into an Exchange Traded Option contract 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 Contract is between the Clearing Participant who clears the contract for the Buyer (taker) of the Option contract and ASX Clear. The other is between the Clearing Participant who clears the contract for the Seller (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 as advised in section 3 above. As the client, you are not party to either of those contracts actually registered with ASX Clear. We may act on your instructions or for your benefit upon registration of the Exchange Traded Option with ASX Clear in our Clearing Participant's name. The Clearing Participant incurs obligations to ASX Clear as principal, even though the Exchange Traded Option was entered into on your instructions.

5.2 Margins

As ASX Clear contracts with Clearing Participants as principals, where a Clearing Participant has an exposure under an Exchange Traded Option contract to ASX Clear, ASX Clear will Call all 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 Exchange Traded Option contract due to an adverse market movement.

The Seller (writer) of an Exchange Traded Option 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 Seller will not perform its obligations if and when the Option is exercised. The Buyer (taker) of an Exchange Traded Option 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 Buyer of the Option can lose in respect of that contract (plus transaction costs).

The total margin Called by ASX Clear for Exchange Traded Options 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 share 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 which ASX Clear Calls from us in respect of positions which we have entered into for you.

PhillipCapital, and at our direction PhillipCapital's Clearing Participant, may also Call for greater amounts of margin if we regard this as appropriate.

5.3 Collateral

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

As a risk management tool, ASX Clear may apply a "haircut" in relation to the value of collateral lodged. For example, if you lodge $10,000 worth of collateral and ASX Clear applies a 30% haircut, only $7,000 will be considered as collateral cover for any margin obligations.

The margining process used by ASX Clear is explained in detail in the ASX booklet "*Margins*" which is available on the ASX website at:

http://www.asx.com.au/documents/resources/Understanding_Margins.pdf

If no other time is stipulated in, or under, the Client Agreement you must pay the margin to PhillipCapital's Clearing Participant, or provide alternative collateral which is acceptable to us, within 24 hours of being advised of the margin Call by us. 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 demand by us.

5.4 Client Trust Accounts

The Corporations Act provides that your money held in PhillipCapital's trust account or our Clearing Participant's trust account can be used for the purposes of meeting margin obligations, guaranteeing, securing, transferring, adjusting or settling dealings in derivatives. This money will not be used to meet the obligations of any other party.

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 PhillipCapital or its Clearing Participant in the course of dealing in Exchange Traded Options, and either party becomes 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.

Further information on the possible protections offered by the NGF is available on the SEGC website at http://www.segc.com.au/

6. Significant Benefits of Exchange Traded Options

Exchange Traded Options have a number of advantages. These include the following:

(a) **Hedging**. Investors can hedge (protect) their share portfolio against a drop in value by, for example, buying (taking) equity Put Options over particular shares.

(b) **Income**. Shareholders can earn income by selling (writing) Call Options over underlying shares they already hold. As a Seller (writer) of Options, the investor will receive the premium amount up front, when the Option is entered into. The risk is that the Seller will need to maintain margin obligations throughout the life of the position and may be exercised against. This exercise will result in the Seller being required to deliver the underlying shares to the Buyer (taker) at the Exercise Price.

(c) **Time to decide**. By buying (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 his/her decision. Likewise the Buyer (taker) of a Put Option has time to decide whether or not to sell the shares.

(d) **Reduce risk.** Exchange Traded Options 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.

(e) **Speculation**. Exchange Traded Options 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.

(f) **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.

(g) **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).

(h) **Diversify portfolios**. Given the lower initial outlay attaching to Options, investors can diversify their portfolios and gain a broad market exposure over a range of shares or the index itself.

(i) In relation to **LEPOs**:
   (i) When you open a LEPO contract you gain exposure to the full value of the underlying shares but actually pay only a fraction of the full premium of the LEPO up front. This potentially provides a greater return to the investor but also means LEPOs have a higher risk profile.
   (ii) Selling a LEPO gives you exposure to a decline in the value of the underlying asset, enabling you to profit if the price of the asset falls. The sale of a LEPO can be compared to a short stock position. Using a LEPO can also be a cost-effective alternative to borrowing to fund a purchase of shares.
   (iii) Credit margins from existing open positions may be used to reduce the initial margin payable. This can further reduce the cash outlay when opening a contract.
   (iv) LEPOs are European style Options, meaning they are only exercisable at expiry and you will not have to be concerned about the possibility of an early exercise.

For further information and detailed examples of LEPOs trading, refer to the LEPOs Low Exercise Price Options Explanatory Booklet by following the link provided in section 3.4 above.

7. Significant Risks of Exchange Traded Options

The risk of loss in trading in Exchange Traded Options can be substantial. It is important that you carefully consider whether trading Exchange Traded Options is appropriate for you in light of your investment objectives and financial positon and needs and circumstances. Exchange Traded Options are not suitable for some retail investors. You should only trade Exchange Traded Options if you understand the nature of the products and the extent of your exposure to risks. The risks attached to investing in Exchange Traded Options will vary in degree depending on the Option traded.

In deciding whether or not you should trade Exchange Traded Options Contracts you should be aware of the following matters relating to risk.

This PDS does not cover every aspect of risk associated with Exchange Traded Options. For further information concerning risks associated with Exchange Traded Option trading you are referred to the ASX booklet “Understanding Options Trading” and in particular the section entitled “Risks of options trading” This booklet is available as advised in section 3 above.

(a) **Price sensitive announcements.** As a general rule, price movements in the underlying share can significantly affect the value of Exchange Traded Options. 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 Exchange Traded Options regularly reviews information announced to the exchange in relation to relevant underlying shares. Price sensitive announcements in relation to shares are available on the ASX website at: http://www.asx.com.au/asx/statistics/announcements.do

(b) **High leverage**. The high level of leverage that is obtainable in trading Exchange Traded Options (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**. Exchange Traded Options have a limited life span as their value erodes as the Option reaches its Expiry Date. It is therefore important to ensure that the option selected meets the investor's investment objectives.

(d) **Market movements**. Exchange Traded Options 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 buying (taking) an Exchange Traded Option is the amount of premium paid plus transaction costs. If the Option expires worthless, the Buyer (taker) will lose the total value paid for the Option (the premium) plus transaction costs.

(f) **Unlimited loss for Sellers**. Whilst Sellers (writers) of Exchange Traded Options earn premium income, they may also incur unlimited losses if the market moves against the Option position. The premium received by the Seller is a fixed amount; however the Seller may incur losses greater than that amount. For example, the Seller of a Call Option has increased risk where the market rises and the Seller does not own the underlying shares. If the Option is exercised, the Seller of the Option is forced to buy the underlying shares at the current (higher) market price in order to deliver them to the Buyer (taker) at the Exercise Price. Similarly where the market falls, the Seller of a Put Option that is exercised is forced to buy the underlying shares from the Buyer at a price above the current market price.

(g) **Loss of margin for Sellers.** Sellers 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 Seller (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 at 5.2 above.

(h) **Close-out difficulties**. Under certain conditions, it could become difficult or impossible to close out a position and the relationship between the price of Exchange Traded Options contracts and the underlying share may be distorted. Examples of when this may happen are:

(i) if there is a significant change in the price of the underlying share over a short period of time;
(ii) if there is an absence or reduction in the number of willing Buyers (takers) and Sellers (writers) in either the Exchange Traded Options market or the underlying market;
(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 share may make it difficult for you to hedge or maintain your exposure under an open Exchange Traded Option contract;

(j) **Contingent orders difficult**. The placing of contingent orders (such as "stoploss" orders, may not always limit your losses to the amounts that you may expect. Market conditions may make it impossible to execute such orders. For example, if the price of the underlying share 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) **ASIC and ASX powers.** ASIC and 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 affected on the ASX may be subject to dispute. When a trade is subject to a dispute ASIC and ASX have powers, in accordance with their rules, to request that a broker amend or cancel a trade, which in turn will result in the contract with the client being amended or cancelled.

In some situations, ASIC and 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 affected 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 a client is unable to deal in Exchange Traded Options when desired, a client may suffer a loss as a result. Common examples of disruption include a fire or other exchange emergency. The exchange could, for example, declare an undesirable situation has developed in a particular Exchange Traded Option contract and suspend trading. Exchanges or participants may also be able to cancel transactions under their operating rules.

(o) **Capital loss.** By trading in Exchange Traded Options, you are exposed to the risk of losing capital. Speculators should not risk more capital than they can afford to lose.

(p) **Loss of LEPO margins**. LEPOs are subject to all of the risk factors that affect other Exchange Traded Options. However, as LEPOs have a low Exercise Price, the full premium amount will be closer to the full value of the underlying share than a standard Exchange Traded Option. Although the Buyer (taker) of a LEPO may only be required to outlay a relatively small amount of money when the LEPO is entered into, at expiry, if the Buyer of a LEPO does not exercise the LEPO, they will lose an amount approximately equal to the then current premium of the LEPO. Both Sellers (writers) and Buyers (takers) of LEPOs are required to pay margins to ASX Clear.

(q) If:

(i) you fail to pay, or provide security for, amounts payable to us or fail to perform any obligation arising pursuant to the exercise or settlement of an Exchange Traded Option;

(ii) a guarantee or other security you have provided to us is withdrawn or becomes ineffective and other replacement security acceptable to us is not provided; or

(iii) any other event occurs which we have agreed with you in the Client Agreement entitles us to take action under that agreement;

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 Exchange Traded Option contracts entered into in relation to your Exchange Traded Options account with us and, without limitation, we may:

(iv) enter into one or more transactions to close out one or more open positions in accordance with the Clearing Rules;

(v) exercise one or more Exchange Traded Option contracts in accordance with the Clearing Rules; or

(vi) exercise any other rights conferred by the Corporations Act, the ASX Market Rules, the Clearing Rules, our agreement with you, or perform any other obligations arising under the Corporations Act, the ASX Market Rules or the Clearing Rules in respect of Exchange Traded Options,

and you must account to us as if those actions were taken on your instructions and you are, without limitation, liable for any deficiency and are entitled to any surplus which may result.

Protection

When selling (writing) an ETO or LEPO, the initial income or premium may seem attractive but the downside may be unlimited. Risk minimization strategies (protection) should be employed to mitigate losses that may arise from an adverse margin movement or adverse market condition.

Whilst this PDS provides information about the risks, characteristics and benefits of ETOs and LEPOs generally, investors should inform themselves and if necessary obtain advice about the specific risks, characteristics and benefits of the ETO or LEPO they intend to trade.

8. Costs associated with Exchange Traded Options

8.1 Premium

If you are the Buyer (taker) of an Exchange Traded Option, you will be required to pay a premium in connection with the purchase of the Exchange Traded Option contract. If you are the Seller (writer) of an Exchange Traded Option, you will be entitled to receive a premium in connection with the sale of the Exchange Traded Option contract.

For further detailed information on the premium in respect of an Exchange Traded Options contract, refer to *Option pricing Fundamentals* on page 9 of the ASX Booklet "*Understanding Options*" available as advised in section 3 above and also the ASX's "Options Calculator" available on the ASX website at:

http://www.asx.com.au/documents/products/expiry_calendar_2016.pdf

8.2 Margin and collateral

If you are the Seller (writer) of an Exchange Traded Options contract, 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 4 above.

For further detailed information on margin and collateral requirements, refer to the ASX "*Margins*" booklet available at the ASX website as advised in section 3 above.

8.3 Broker additional margin requirements

Details of any additional margin requirements PhillipCapital may Call over that required by ASX Clear are as discussed in Part 2 of this PDS.

8.4 Our fees and charges

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

8.5 Liability

For Buyers (takers), trading Options may result in a loss situation if the Options are trading *out of the money* (for Call Options where the Exercise Price is higher or lower for Put Options, than the current market price), however the amount of the loss for a taker is limited to the premium paid. The liability of a Seller (writer) is potentially unlimited (naked position).

9. Dispute Resolution

PhillipCapital is committed to providing our clients superior service and as such we acknowledge the right of clients to make suggestions on how we may improve our service or make complaints.

PhillipCapital has implemented a dispute resolution system (DRS) for the management of complaints from retail clients. A complaint is defined as any expression of dissatisfaction made to PhillipCapital relating to our product or services or the complaints handling process itself, where a response or resolution is explicitly or implicitly expected. The DRS will provide an efficient, fair and accessible mechanism from inception to satisfaction or final determination, as the case may be, irrespective of the nature of the complaint. The overriding aim of the complaints handling process is to turn dissatisfied clients into satisfied clients.

If you have any concerns about the service provided to you, you should take the following steps:

Firstly, discuss the matter with your advisor and provide all the relevant information;

If the matter is not satisfactorily resolved within 3 Business Days, you may contact the PhillipCapital Complaints Officer by telephone on +61 3 8633 9800, or in writing to:

PhillipCapital Complaints Officer, PO Box 628 Collins Street West Vic 8007
or by Phone: +61 3 8633 9800 Facsimile on +61 3 8526 0399.

Every effort will be made to resolve complex complaints within 45 days. If you are still not satisfied with the outcome, you may take your complaint to an external dispute resolution scheme. PhillipCapital is a member of the scheme operated by the Financial Ombudsman Service (FOS). Write your complaint to:

Financial Ombudsman Service, GPO Box 3 Melbourne VIC 3001
Phone: 1300 780 808 Facsimile: +61 3 9613 6399

Please note that FOS will not begin to consider the dispute unless you have first given us the opportunity to resolve the dispute with you directly.

You may also direct your complaint or seek advice from :

Australian Securities & Investments Commission (“ASIC”)
free call infoline 1300 300 630 Email : infoline@asic.gov.au

10. Significant Taxation Implications

PhillipCapital does not provide advice on taxation matters. The taxation of Options can be complex and may change over time. Accordingly, we recommend that you seek professional tax advice before entering in to or disposing of an Exchange Traded Option.

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 Exchange Traded Options. The information applies to Australian resident investors only. It is important to note that your tax position when trading Exchange Traded Options will depend on your individual circumstances, in particular whether you are trading on revenue or capital account (refer below for further discussion) or whether you are subject to the Taxation of Financial arrangements (TOFA) rules contained in Division 230 of the Income tax Assessment Act 1997.

In order to determine the taxation consequences of any transaction, you must first determine whether the TOFA rules apply as summarised in clause 10.2 of this PDS.

10.1 Implications for Australian resident investors

Revenue account

Seller of the Option

Where a Seller (writer) of an Option sells (writes) an Option in the ordinary course of business or the Option has been sold over an underlying revenue asset, the Option will be treated as being on revenue account. The premium received by the Seller of the Option will be assessable on a due and receivable basis. Where any premium is credited to the Seller’s Clearing House account the amount will still be assessable on this basis. Any subsequent margin calls are not deductible when they are deposited by the Seller into their Clearing House account.

These margins will merely reduce any net position of the Seller upon the close-out, settlement or exercise of the Option by the Buyer (taker). Where interest is received by the Seller on the margins held in their Clearing House account, this is required to be included in the Seller’s assessable income.

Buyer of the Option

A Buyer (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 Buyer is generally regarded as being deductible on a due and payable basis. This will generally be at the time the Option is entered into. When an Option on a revenue account lapses there are no further tax implications.

However, whene an Option on revenue account is exercised, the Option Exercise Price will form part of the acquisition cost or disposal proceeds for the underlying asset in question.

Alternatively, when 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.

Capital account

Seller of the Option

When a Seller (writer) sells (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 Seller of the Option will give rise to an assessable capital gain on a received or a receivable basis.

When any premium is credited to the Seller’s Clearing House account the amount will still be assessable on this basis. Any subsequent margin calls will merely reduce any net position of the Seller upon the close-out, settlement or exercise of the Option by the Buyer (taker).

When interest is received by the Seller on the margins held in their Clearing House account, this is required to be included in the Seller’s assessable income.

Exercise of a Call Option

When 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 Seller's capital proceeds for CGT purposes. This may have practical implications for Seller of Options where the premium and sale proceeds are received in different financial years.

Exercise of a Put Option

When 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 Seller 's cost base of the underlying asset for CGT purposes. This may have practical implications for Seller 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.

Buyer of the Option

A Buyer (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 Buyer in respect of any premium paid for Options which are held on capital account.

When an Option on a capital account lapses the Buyer 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 Buyer 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.

Exercising a Call Option

When a Call Option is exercised, the Option premium and Exercise Price will form part of the cost base of the underlying asset for the Buyer.

Exercising a Put Option

When a Put Option is exercised, the Buyer will generally deduct the Option price from the proceeds received on the disposal of the underlying asset.

Low Exercise Price Options

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.

10.2 Rules for the Taxation of Financial Arrangements (TOFA)

Depending on the relevant circumstances a taxpayer may be subject to the TOFA rules. The taxation of financial arrangements were introduced for the Taxation of Financial Arrangements (TOFA) rules. ETOs covered by this PDS are expected to qualify as financial arrangements and therefore the TOFA rules may have a significant impact on the taxation of ETOs. Briefly, the rules:

(a) generally deem gains and losses from financial arrangements to be on revenue account

(b) likely impact on the timing of the recognition of the gains and losses and

(c) may cause unrealised gains and losses to become subject to tax.

Below is a brief summary of the rules. The TOFA rules are complex and it is strongly recommended that you seek specific tax advice on the application of the rules to your dealings.

Application

Generally, the TOFA rules do not apply to individuals, small superannuation funds and small securitisation vehicles. However, the rules will apply to these taxpayers if the financial arrangement involves substantial tax deferral.

The TOFA rules do apply to most corporate taxpayers provided certain turnover and other tests are met.

When did the TOFA rules commence?

The TOFA rules applied from 1 July 2010. However, taxpayers may have elected for the rules to apply from 1 July 2009. If the taxpayer has a substituted accounting period for tax purposes, a later date may apply, e.g. if the taxpayer has a 31 December year end, the rules applied from 1 July 2011 (or from 1 January 2010 by election).

Impact of TOFA

The TOFA rules allow taxpayers to make a number of elections that determine how gains and losses from financial arrangements will be taxed. The elections are generally irrevocable.

If you did not make any elections (other than the election to enter into the TOFA regime early), the rules should treat most of gains and losses from ETOs on a realisation basis. Gains from exercising ETOs will not contribute to the cost base of the assets received upon the exercise.

However, the accruals method may apply in some cases to spread the recognition of some gains and losses over the life of the ETO.

The fair value and financial report elections include in the tax calculation gains and losses from financial arrangements that are reflected in the profit and loss statement (for example, financial arrangements that, for accounting purposes, are classified as held for trading or designated as valued at fair value through profit and loss). This means that unrealised gains and losses may be subject to tax. If you made a valid fair value or financial reports election and it did not cease to apply to you, the gains and losses from ETOs for tax will be aligned to the gains and losses recognised in the profit and loss for accounts.

The hedging election allows tax matching of the gains and losses from the underlying hedged item. The matching is both timing (i.e. over the time the underlying item is held) and character (i.e. will take on tax character, revenue or capital, of the underlying item).

The arrangements subject to the hedging election will not be subject to the fair value or financial reports elections, even if those are made. If you made a valid hedging election and an ETO qualifies for the hedging election treatment, the gains and losses from the ETO will be matched to the gains and losses from the underlying hedged item. The conditions for the hedging election are complex and include documentation and hedge effectiveness requirements.

10.3 Goods and Services Tax

The purchase and disposal of ETOs over shares and any index by investors is not subject to goods and services tax (GST) other than in respect of any brokerage or other transactional costs.

11 Terms and Conditions

11.1 Client Agreement

In order to enter into Exchange Traded Options transactions contemplated under this PDS, you will need to open an Account with us by completing and executing our Account Application and Client Agreement. By executing the Client Agreement you will acknowledge and consent to the Terms and Conditions of our Client Agreement. There are representations, warranties and indemnities contained in the Terms and Conditions that you must understand. If you do not understand any aspect of the Terms and Conditions, please seek advice.

Our Account Application is available on our website either via Online Account Opening, or via the manual application form and we can also email or post at your request. You will be provided with the Terms and Conditions and our Client Agreement and applicable documents free of charge.

Before making a decision to acquire the financial products described in this PDS, you must read this PDS the Client Agreement and the Terms and Conditions and other applicable documents and be satisfied that any trading you enter in relation to the Exchange Traded Options is appropriate in view of your investment objectives, financial situation and particular needs and circumstances.

It is recommended that you seek independent advice concerning our Client Agreement and Terms and Conditions and applicable documents before you apply to open an Account with us.

11.2 Additional Terms

Additional information and legal terms governing your and our rights, obligations and liabilities include :

- the information contained in our Financial Services Guide (“FSG”)
- the information contained in our Terms and Conditions
- the information contained in our Risk Disclosure Statement
- the information contained in the Pershing Financial Services Guide (“FSG”)
- the information contained in the Pershing Derivatives Client Agreement
- any supplementary terms for particular financial products such as the terms for Exchange Traded Options Contracts which are generally set out in the operating rules of the relevant Exchange;
- any supplementary terms for any electronic Trading Platform which you may use to transmit your orders;
- the ASIC Market Integrity Rules (where applicable) and
- other operating rules and legislation in relation to options markets.

You should also refer to the ASX website for information, details of contracts available for trading, contract specifications, operating rules, pricing information and clearing arrangements.

If you are unable to access the relevant website, please contact us and we will endeavour to make the information available to you through other means.

11.3 Cooling Off

No cooling off arrangements apply for Exchange Traded Options products acquired under this PDS. This means that when you enter into an Exchange Traded Options contract, you do not have a right to return the product and request a refund of the money you pay to acquire the product. If you change your mind after entering into a contract, you should endeavour to close out your position by taking an opposite position as soon as possible. You must be aware that you may incur a loss if you take this action.

12 Privacy Policy

PhillipCapital respects and upholds your rights to privacy protection under the Australian Privacy Principles contained in the Privacy Act 1988 (Cth) and has established a Privacy Policy which outlines how PhillipCapital manages the personal and sensitive information it holds about its clients, potential clients and others. The Privacy Policy of PhillipCapital may be viewed on our website at www.phillipcapital.com.au

13 Glossary

In this PDS, the following words and expressions shall have the meanings set out below unless the context otherwise requires:

"Account" means the account on which the Client effects transactions in accordance with this PDS;

“AFS” means Australian Financial Services;

“**AFSL**” means Australian Financial Services Licence;

"Application Form" means the application form(s) by which the Client applies to PhillipCapital to open an Account with PhillipCapital;

"Applicable Laws" means all relevant or applicable statutes, laws, rules, regulations, directives and circulars (whether of governmental bodies or authorities or self-regulatory organisations in relation to which PhillipCapital or any person within PhillipCapital is a member of, or otherwise);

"ASIC" means the Australian Securities & Investments Commission or any regulatory body which replaces it or performs its functions;

"ASX" means The Australian Securities Exchange (operated by ASX Limited);

"ASX Clear" means ASX Clear Pty Limited;

"Business Day" means any day on which the relevant Market on which the Transaction is effected is open for trading;

"Buy" means a transaction that is opened by "buying" is referred to as a "Buy" and may also, in our dealings with you, be referred to as "long" or "long position";

"Call Option" means an Option contract which gives the buyer the right, but not the obligation, to buy the Underlying Asset from the seller at (in the case of a European Option) a future point in time (the Expiry Date) at a pre-defined price (the Exercise Price);

"Clearing House" means a clearing house appointed by the relevant exchange to clear and settle the Exchange Traded derivatives entered into on that exchange;

"Clearing Participant" refers to a participant of a Clearing House, as that term is defined in the operating rules of the relevant Clearing House. PhillipCapital has contracted with Pershing Securities Australia Limited as its Clearer.

"Client" means the person or corporation for whom PhillipCapital is maintaining or continuing to maintain one or more Account(s) and includes the Client's assignees, successors-in-title and agents;

"Client Agreement" means the agreement (which may from time to time be varied or modified in accordance with its provisions) entered into by you as part of the Account opening process and includes all appendices, schedules and all other documents or instruments made supplemental to it including but not limited to any Application Form(s);

"Client Money" means any money that is deposited with PhillipCapital, including net trading profits and the value of margins;

"Confirmation" means the confirmation note PhillipCapital sends you on execution or partial execution of a transaction;

"Corporations Act" means the *Corporations Act 2001* (Cth) as amended from time to time;

"Derivatives CCP Contract" means one of the two matching contracts between ASX Clear and a Participant that arise when a Derivative Market Contract is registered by and novated to the ASX Clear under the ASX Clear Operating Rules.

"European Option" means an Option which can only be exercised on the date on which the Option expires (Expiry Date), not before;

"Exercise Price" means the price at which the buyer of an Option contract may buy or sell the Underlying Asset, as defined in the terms of the Option contract;

"Exchange Traded Option" or "ETO" means an option which, upon exercise, results in the transfer of the actual security underlying the option (in the case of deliverable contracts), or a cash adjustment (in the case of cash settled contracts).~~;~~

"ETO Contract" means a Derivatives Market Contract or Derivatives CCP Contract (each as defined in the ASX Clear Operating Rules) as the context requires in relation to ETOs;

"Expiry Date" In relation to an Option contract, the date on which the Option contract expires or matures;

"Financial Services Guide' The Financial Services Guide prepared by PhillipCapital and by Pershing in accordance with Section 941A of the Corporations Act 2001 (Cth).

"GST" means a tax, levy, charge or impost imposed by or under A New Tax System (Goods and Services Tax) Act 1999 (Cth), as amended, and/or any other Act relating to the imposition or administration of a GST;

"in-the-money" means an Option with intrinsic value. For example equity Call Option is in-the-money if the share price is above the Exercise Price. A Put Option is in-the-money if the share price is below the Exercise Price.

"LEPO" or "Low Exercise Price Option" means a Call Option with an Exercise Price of one cent per underlying share or in respect of index LEPOs, an exercise level of 1 point of the underlying index.

"Loss" means any and all loss, damage, costs, charges, and/or expenses of whatsoever nature and howsoever arising including legal fees on a full indemnity basis, cost of funding and loss or cost incurred as a result of, or relating to the terminating, liquidating or re-establishing of any hedge or related trading position;

"Officer" means any officer or employee of PhillipCapital;

"Option" means an Exchange Traded Option.

"OTC" Over the counter (not dealt with or listed on any exchange) contracts or products that are traded (and privately negotiated) directly between two parties;

"PhillipCapital" means Phillip Capital Limited ABN 14 002 918 247 AFSL 246827;

"Product Disclosure Document" or "PDS": means this document described as the Product Disclosure Statement and issued by PhillipCapital, as revised from time to time;

"Put Option" means an Option contract that gives the buyer the right, but not the obligation, to sell the underlying security at a pre-determined price on or before a fixed date. For the Seller of a Put Option, the contract represents an obligation to buy the underlying security if the Option is exercised.

"Rules" Any of all of:

- The ASX Group Rules
- The ASX Operating Rules
- The ASX Settlement Operating Rules
- The ASX Clear Operating Rules
- The ASIC Market Integrity Rules and
- Any other applicable law.

"Sell" means a Transaction that is opened by "selling" is referred to as a "Sell" and may also, in our dealings with you, be referred to as "short" or "short position";

"Strike Price" means the same as Exercise Price.

"Terms and Conditions" means the terms and conditions of PhillipCapital;

"Transaction" includes any Exchange Traded Options transaction.

PART 2: SCHEDULE OF FEES

Issued by: Phillip Capital Limited

ABN 14 002 918 247

Australian Financial Services Licence No. 246827

Level 10, 330 Collins Street

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www.phillipcapital.com.au

Issue Date: 6 MAY 2016

PART 2 - Fees

1 Payments and Schedule of Fees

This document forms part of the PDS. This document should be read in conjunction with Part 1 of the PDS. The following information relates to the way we charge for transacting in Exchange Traded Options for you, associated costs and the way our advisers are remunerated.

1.1 Payments

(a) The Client shall promptly pay all of PhillipCapital's fees and/or other charges at such rates and in such manner as PhillipCapital may in its sole and absolute discretion impose and stipulate from time to time with respect to the execution, performance and/or settlement of any Transaction or otherwise for the maintenance of any Account(s) or the provision of any service or facility to the Client in connection with any Account(s).

(b) The Client shall make payment to PhillipCapital's order promptly of any outstanding sum on the due date of the relevant Transaction, or upon demand by PhillipCapital as provided for in the Client Agreement.

(c) All payments to PhillipCapital shall be in the Currency in which they are due (unless otherwise notified by PhillipCapital), in free and clear funds and free of deductions or withholdings. If the Client is obliged by law to make such deduction, the Client shall pay to PhillipCapital such greater amount which after deduction shall ensure that the net amount actually received by PhillipCapital will equal the amount which would have been received by PhillipCapital had no such deduction been required.

(d) **Funds transfer methods**

If you wish to deposit or top up your Exchange Traded Options account, you may do so by:

Mode	Details
Cash (**not permitted**)	Please note that PhillipCapital cannot accept physical cash in any circumstances
Cheque	Cheques should be in Australian dollars only and made payable to “Phillip Capital Limited <Trust A/C>” and crossed “Not Negotiable”. On the reverse of the cheque write your ETO trading account number, name and contact number and specify that the payment is meant for your Options trading account.
Electronic Transfer	Pershing Securities Australia Limited <Trust A/C > Details provided with account opening

PhillipCapital’s Clearing Participant offers settlement of ETO transactions via direct debit from the client’s Cash Management Account. Debit/Credit Authority forms are included in PhillipCapital’s Account Application. PhillipCapital supports Debit/Credit Authorities with many major Cash Management providers.

1.2 Fees

(a) Fees and Charges

The following information relates to the way we charge for entering into Exchange Traded Options for you, associated costs and the way our advisers are remunerated.

(b) Brokerage

The specific rate of brokerage can be negotiated with your Adviser and will depend on factors such as the level of service, the type of advice, the size and complexity of the transaction and the frequency of any transactions on your Client Account. Brokerage charges are shown on your confirmation.

The brokerage payable by you to us in respect of buying or selling an Exchange Traded Option contract will be calculated as a percentage of the premium payable by the Buyer (taker) of the Exchange Traded Option contract.

The minimum brokerage charged by us is $50 per trade plus GST to open or close a position. Minimum charges may be higher for phone execution or advice and negotiated with your adviser. Above this minimum, brokerage is charged on a percentage of premium basis. Percentage fees can represent up to 2.5% or premium value.at a rate agreed between you and your adviser.

(c) Interest

PhillipCapital’s Clearing Participant will maintain a trust account to hold funds which you have provided to settle transactions we have undertaken on your behalf. PhillipCapital’s Clearing Participant will pay to PhillipCapital interest on the trust account, at the Reserve Bank cash rate less an administration fee.

ASX Clear will pay interest to PhillipCapital’s Clearing Participant on cash lodged as collateral to cover ASX Clear margins. Any interest paid by ASX Clear to PhillipCapital’s Clearing Participant will be at the Reserve Bank cash rate less 65 basis points (0.65%). PhillipCapital’s Clearing Participant will pass on the amount received from ASX Clear to PhillipCapital. PhillipCapital will pay that amount to clients less an administration fee of 35 basis points (0.35%) where a Client Account receives more than $25.00 of interest per month as paid by ASX Clear to PhillipCapital’s Clearing Participant. This interest will appear on your monthly statement.

PhillipCapital may charge you interest in circumstances if your account balance is in debit at an interest rate of 4% above the RBA cash rate. Interest on debit balances is calculated daily from the date when the amount was due (irrespective of any grace period) to the date of its final payment in full.

(d) Margin requirements

Refer to Margins in Part 1 clause 5.2 of this PDS

(e) Goods and services tax (GST)

GST will be charged on all brokerage and fees at the current rate which is 10% and may be amended from time to time in accordance with legislation.

The purchase and disposal of Exchange Traded Options over shares and the share price index by investors is not subject to GST.

(f) ASX Clear Fees

ASX Clear charges a registration fee of $0.13 per equity Option contract, plus GST. If you exercise an ETO or are assigned (where another party exercises the Option) on an ETO, ASX Clear charges an exercise fee of $0.05 per contract, plus GST. In the case of index Options, ASX Clear charges $0.35 per contract, plus GST. The fee is the same for both the registration and exercise fees in the case of index Options. The exact cost of your transaction will be disclosed on your confirmation.

(g) Tax deductibility

Some fees that we charge may be tax deductible. You must confirm this with your tax adviser or accountant in relation to your specific situation.

(h) Fail fees

Fail fees are charged as a percentage of the trade value or margin Call, per day they remain outstanding. For any trade value or margin Call greater than $50,000, PhillipCapital will charge a late settlement fee of 0.04% of the total outstanding per day (due to provision of funding by PhillipCapital) plus an administration fee of $50.00, plus GST. If the trade value or margin Call is less than $50,000, a minimum charge will apply of $30.00 per day, plus GST.

(i) Third Party Fees

Fees in relation to Exchange Traded Option confirmations are payable to a third party, these are not in addition to any charges payable by you and are included in your brokerage charge.

(j) Remuneration

Any fees in relation to the service provided by your adviser are payable to Phillip Capital Limited.

Your Adviser is either an employee of PhillipCapital or an independent contractor to PhillipCapital. Your Adviser, or their employer, is remunerated on either a commission basis or on a salary plus commission basis depending on their arrangements.

(k) Referral fees

Where you have been referred to us by a third party (such as a financial planning group or accountant), we may pay an introductory fee or commission rebate in relation to the referral. All introductory fees or commission rebates are negotiated with the third party on a case by case basis. These fees are not in addition to any charges payable by you.

(l) Establishment fees

There are no establishment fees.

Terms and Conditions

Derivatives

Phillip Capital Limited ABN 14 002 918 247 AFSL 246827
Phillip Capital Trading Pty Ltd ABN 68 066 066 911 AFSL 246796
together known as "PhillipCapital"

The following Terms and Conditions set out the basis on which you engage Phillip Capital Limited and Phillip Capital Trading Pty Ltd (PhillipCapital, we or us) to conduct trading in derivatives on a Licensed Market in Australia.

1. Application of the Market Rules

The Client and PhillipCapital Limited (Market Participant) are bound by the Operating Rules of ASX Limited (ASX), the Corporations Act 2001 (Cth) and all derivatives transactions ("transactions") must be in accordance with the constitution, Market Rules, customs and usages of the Market Operator, the Australian Clearing House Rules, and their related entities, and any other applicable laws and regulations of Australian government and regulatory bodies as amended from time to time in so far as they apply to Options/LEPOs/ and other derivative instruments traded for the Client.

2. Explanatory Booklet (Retail investors only)

The Client has received and read a copy of the current applicable explanatory booklet published by ASX, Chi-X or other market operator, in respect to each applicable Derivative Product.

3. Exchange Traded Options Product Disclosure Statement (Retail investors only)

The Client acknowledges that they have read and understood the attached Exchange Traded Options Product Disclosure Statement where applicable.

4. Authority

The Client acknowledges that they are either:

(a) acting as principal; or

(b) acting as an intermediary on another's behalf and are specifically authorised to transact the ASX Derivate Market Contracts, by the terms of; (i) a Licence held by the Client; (ii) a trust deed (if the Client is a trustee); (iii) an agency contract; or (iv) a third party authority, which is attached.

5. Nature of Market Participant's obligations

Notwithstanding that the Market Participant may act in accordance with the instructions of, or for the benefit of the Client, the Client acknowledges that any contract arising from any order submitted to the Market, is entered into by the Market Participant as Principal.

6. Dealing as Principal

The Client acknowledges that PhillipCapital may, in certain circumstances be permitted under the Corporations Act and the Market Rules, take the opposite position in a transaction in the ASX Derivative Market Contracts, either acting for another Client or on its own account.

7. Commissions and fees

The Client must pay to PhillipCapital commissions, fees, taxes and charges in connection with dealings for the Client in ASX Derivative Market Contracts at the rates determined by PhillipCapital from time to time and notified to the Client in writing.

8. Recording of telephone conversations

The client acknowledges that PhillipCapital may record telephone conversations between the client and PhillipCapital. If there is a dispute between the client and PhillipCapital, the client has the right to listen to any recording of those conversations.

9. Client to provide information

The Client will take all reasonable steps to deliver information or documentation to PhillipCapital, or cause information or documentation to be delivered to PhillipCapital concerning Options or other derivative Transactions which are requested by a person having a right to request such information or documentation. PhillipCapital is authorized to produce the information or documentation to the person making the request.

10. Right to refuse to deal

The Client acknowledges that PhillipCapital may at any time refuse to deal in, or may limit dealings in, the ASX Derivative Market Contracts for the Client. PhillipCapital is not required to act in accordance with the Client's instructions, where to do so would constitute a breach of the ASX Operating Rules, the ASX Clear Operating Rules or the Corporations Act. PhillipCapital will notify the Client of any refusal or limitation as soon as practicable.

11. Termination of agreement

Either the Client or PhillipCapital may terminate this Agreement by giving notice in writing to the other. Termination will be effective upon receipt of the notice by the other party. Written notice from the Client is to be addressed to the Compliance Officer of PhillipCapital.

12. Effect of termination

Termination does not affect the existing rights and obligations of the Client or PhillipCapital at termination. Upon termination of this Agreement PhillipCapital will close out all Open Contracts entered into by PhillipCapital and registered into the Client's Account, unless, in accordance with a direction from the Client, the registration of those contracts is transferred to another Clearing Member in accordance with the Market Rules.

13. Revised Terms Prescribed by ASX

If ASX prescribes amended minimum terms for a Client Agreement for the ASX Derivative Market Contracts for the purposes of the Rules (the "New Terms"), to the extent of any inconsistency between these minimum terms and the New Terms, the New Terms will override the terms of the Client Agreement and apply as if the Client and PhillipCapital had entered into an Agreement comprising the New Terms.

14. PhillipCapital to provide client with copy of amendments

PhillipCapital may, at its discretion and without any prior or subsequent notice to you, amend or remove any part of the Terms and Conditions at any time to reflect changes in our practices, and/ or applicable law and regulation. Please check the Policy on our website from time to time to ensure that you are aware of any changes or updates to the Terms and Conditions which will be indicated by the dated noted in the footer of the document. If you do not have access to electronic communication or our website, you may request a copy of the Terms and Conditions by contacting us.

15. Application of Clearing Rules

The Client acknowledges that each Option registered with an Approved Clearing Facility is subject to the operating rules and the practices, directions and requirements of that Approved Clearing Facility.

16. PhillipCapital may call for funds or security

PhillipCapital may call for payment of money or the provision of other security which PhillipCapital considers, in its absolute discretion, appropriate in connection with the obligations incurred by PhillipCapital in respect of Derivatives CCP Contracts entered into for the account of the Client. The time by which the Client must pay any amount called or provide security is of the essence and, if no other time is stipulated in the Client Agreement, the Client must pay the amounts, or provide the relevant security, within 24 hours of the call for payment.

17. Default

If:

(a) the Client fails to pay, or provide security for, amounts payable to the Participant or fails to perform any obligation arising pursuant to the exercise or settlement of an ASX Derivatives Contract;

(b) a guarantee or other security provided by the Client to the Participant is withdrawn or becomes ineffective and other replacement security acceptable to the Participant is not provided; or

(c) any other event occurs which the Participant and the Client have agreed in their Client Agreement entitles the Participant to take action under this clause the Participant may, in addition to any other rights which they may have against the Client, without giving prior notice to the Client, take any action, or refrain from taking action, which it considers reasonable in the circumstances in connection with Derivatives Market Contracts registered in the Client Account of the Client (including, without limitation, ASX Derivatives Contracts arising from those contracts transacted) and, without limitation, the Participant may:

- (i) enter into one or more transactions to effect the close out of one or more ASX Derivatives Contracts in accordance with the Rules;
- (ii) exercise one or more ASX Derivatives Contracts in accordance with the Rules and; or
- (iii) exercise any other rights conferred by the Rules, the operating rules of a relevant Approved Market Operator, or the Client Agreement or perform any other obligations arising under the Rules, the operating rules of a relevant Approved Market Operator, or the Client Agreement in respect of those ASX Derivatives Contracts, and the Client must account to the Participant as if those actions were taken on the instructions of the Client and, without limitation, is liable for any deficiency and is entitled to any surplus which may result.

18. Miscellaneous

Any notice given or demand by either party, or confirmation issued by us, shall be deemed to have been received on the Business Day following the transmission or posting of the notice, demand or confirmation.

You agree that our contractual relationship shall be governed by the laws and the exclusive jurisdiction of Victoria, Australia.

19. Privacy

You expressly authorise us to disclose information relating to you and your transactions with us to the Australian government and regulatory bodies where they are entitled to demand such information under applicable laws and regulations.

Our contact details:

PhillipCapital

Level 10 330 Collins Street Melbourne Vic 3000

PO Box 628 Collins Street West Vic 8007

Telephone +61 3 8633 9800

Facsimile +61 3 8633 9899

Email compliance@phillipcapital.com.au

Website www.phillipcapital.com.au

PERSHING DERIVATIVES CLIENT AGREEMENT
between
a client of Phillip Capital Limited ABN 14 002 918 247
AFSL 246827 (Broker)
and
PERSHING SECURITIES AUSTRALIA PTY LTD
ABN 60 136 184 962 AFSL No. 338264 (Pershing)

1. INSTRUCTIONS

1.1 ASX Derivative Products

The client named in the above Client Application Form (Client) may from time to time instruct the Broker to deal in the following kinds of derivatives which are traded on ASX:

(a) Options Market Contracts (sometimes referred to as Exchange Traded Options); and

(b) other kinds of derivatives traded on ASX.

but not including Futures Market Contracts (ASX Derivative Products).

1.2 Authorisation of additional ASX Derivative Products

If the Client gives instructions to the Broker to deal in an ASX Derivative Product in which the Broker is not authorised to deal under this clause, those instructions are taken to vary this agreement to authorise the Broker to deal in that ASX Derivative Product under this clause.

1.3 Right to refuse to deal

The Client acknowledges that:

(a) Pershing may (and may instruct the Broker to) at any time refuse to deal in, or may limit dealings in, ASX Derivative Products for the Client. Pershing will notify the Client of any refusal or limitation as soon as practicable; and

(b) [ASX Clear Minimum Term 4] Pershing is not required to act in accordance with the Client's instructions, where to do so would constitute a breach of the ASX Clear Rules, the ASX Operating Rules, ASIC Market Integrity Rules or the Corporations Act.

1.4 Authority to act on instructions

The Client authorises Pershing to accept and act without any inquiry upon instructions provided (including orders placed) by fax or e-mail which appear to Pershing to have been given by the Client, the Broker or by any other person on behalf of the Client, and indemnifies Pershing in respect of any losses or expenses that Pershing may suffer or incur as a result of so acting.

2. CLEARING ARRANGEMENTS AND RELATIONSHIP WITH ASX AND ASX Clear

2.1 Clearing Agreement between the Broker and Pershing

The Broker is a Market Participant of ASX and is a party to a Clearing Agreement with Pershing for the purposes of the ASX Operating Rules and the ASX Clear Rules.

Pershing is a Clearing Participant of ASX and a General Participant of ASX Clear.

2.2 Nature of Pershing's obligations [ASX Clear Minimum Term 4]

The Client acknowledges that:

(a) notwithstanding that Pershing or the Broker may act in accordance with the instructions of, or for the benefit of, the Client, any Derivatives Contract arising from any order submitted to ASX is entered into by the Broker as principal; and

(b) upon registration of a Derivatives Contract with ASX Clear in the name of Pershing, Pershing incurs obligations to ASX Clear as principal, even though the Derivatives Contract may have been entered into on the Client's instructions.

2.3 Obligations of Client owed to Pershing

On execution of a Derivatives Transaction in an ASX Derivative Product by the Broker on behalf of the Client, the Client owes obligations to Pershing in relation to that Derivative Transaction including the obligations set out in this agreement. Where the Client owes an obligation to deliver funds, security or information to Pershing that obligation will not be satisfied by delivery to the Broker.

2.4 Misdirected Transactions

The Client acknowledges that, if at any time Derivatives Transactions executed by the Broker are also to be cleared through a Clearing Participant (other than Pershing):

(a) the Broker may, incorrectly or otherwise, direct a Derivatives Transaction which it has executed on the Client's behalf to a Clearing Participant other than Pershing (Misdirected Transaction);

(b) Pershing will not carry the settlement obligations in respect of any Misdirected Transaction; and

(c) Pershing will not give the Client a confirmation in respect any Misdirected Transaction.

2.5 Rights of Client [ASX Clear Minimum Term 4]

The Client acknowledges that any benefit or right obtained by Pershing upon registration of a Derivatives Contract with ASX Clear by novation of a contract under the ASX Clear Rules or any other legal result of registration is personal to Pershing and the benefit of that benefit, right or legal result does not pass to the Client. The Client has no rights, whether by way of subrogation or otherwise, against ASX or ASX Clear in relation to any transactions by Pershing (or the Broker or any other Market Participant or Clearing Participant) in any Derivatives Contract.

2.6 Appointment as agent [ASX Clear Minimum Term 10]

The Client irrevocably appoints severally ASX Clear, and every director, manager and assistant manager for the time being of ASX Clear, at the option of ASX Clear (as applicable) to do all acts and execute all documents on the Client's behalf for the purpose of exercising the powers conferred on ASX Clear under ASX Clear Rule 15 including, the power to transfer or close out Derivatives Contracts if Pershing commits an event of default.

2.7 Application of ASX Operating Rules and ASX Clear Rules [ASX Clear Minimum Term 1]

The Client and Pershing agree that the terms of their relationship in respect of Derivatives Contracts, and any dealings between them concerning Derivatives Contracts are subject to, and that they are bound by the Corporations Act, the ASX Operating Rules, the ASX Clear Rules and the procedures, customs, usages and practices of ASX, ASX Clear and their related entities, as amended from time to time, in so far as they apply to Derivatives Contracts.

3. MARGIN CALLS AND COVER

3.1 Pershing may call for funds or security [ASX Clear Minimum Term 6]

Pershing may call for payment of money or the provision of other security (Pershing Cover) which Pershing considers, in its absolute discretion, appropriate in connection with the obligations incurred by Pershing in respect of Derivative Contracts entered into for the account of the Client. The Client acknowledges that Pershing is entitled to call for Pershing Cover under this clause 3.1 of an amount or value which exceeds the amount of the Cover which Pershing is required to provide to ASX Clear in respect of the Derivative Contracts registered with ASX Clear in a Client Account in respect of the Client. The time by which the Client must pay any amount called or provide security is of the essence. The Client must pay the amounts, or provide the relevant security, within 24 hours of the call for payment.

3.2 Application of funds or financial products to satisfy calls

The Client authorises Pershing to withdraw or otherwise apply funds or financial products held on the Client's behalf to partially or fully satisfy such calls.

3.3 Authority to provide Cover

If the Client makes money or financial products available to Pershing as Pershing Cover (whether by delivery to Pershing or application by Pershing under this agreement), the Client:

(a) warrants that the Client is legally entitled and authorised to do so, and that the Pershing Cover is free from all Encumbrances; and

(b) authorises Pershing to pay the money and/or make the financial products available to ASX Clear as Cover.

3.4 Interest on Cover

No interest is payable on moneys or other security provided by the Client to Pershing under this clause.

3.5 Pershing may use moneys as Cover

Pershing may itself provide money or other financial products to ASX Clear as Cover for its Clearing Obligations and Pershing will retain any interest it receives on such moneys.

4. COMMISSIONS AND FEES [ASX Clear Minimum Term 8]

The Client must pay to Pershing commissions, fees, charges and taxes in connection with dealings for the Client in ASX Derivative Products at the rates determined by Pershing from time to time and notified to the Client in writing. Commission is payable to Pershing on a contract executed by Pershing for the transfer of Underlying Financial Products following the exercise of a Derivatives Contract. Pershing will pass on part of that commission to the Broker. Commission charged by the Broker to the Client is also collected by Pershing on behalf of the Broker. Pershing will account to the Broker for such commission after deducting fees which Pershing charges to the Broker.

5. MONEYS AND DEFAULT

5.1 Client funds and property [ASX Clear Minimum Term 15]

Pershing must deal with any money and property paid or given to Pershing in connection with the Pershing/Client relationship in accordance with the Corporations Act and the ASX Clear Rules.

5.2 Combination, deposit and use of funds [ASX Clear Minimum Term 15]

(a) The Client acknowledges that the Client's monies and the monies of other clients of Pershing may under the ASX Clear Rules be combined and deposited by Pershing in a trust account or clients' segregated account. The Client acknowledges that all monies credited to the clients' segregated account maintained by Pershing may be used by Pershing to meet the default of any client of Pershing.

(b) Despite clause 5.2(a), Pershing agrees that it will only pay the Client's monies into a trust account.

5.3 Set Off

Pershing is entitled to set off any monies received from the sale of financial products on the Client's behalf against any monies due to Pershing by the Client on any account.

5.4 Default [ASX Clear Minimum Term 7]

If:

(a) the Client fails to pay, or provide security for, amounts payable to Pershing or fails to perform any obligation arising pursuant to the exercise or settlement of a Derivatives Contract;

(b) the Client becomes bankrupt or enters into a composition or arrangement for the benefit of creditors or, being a company, a liquidator is appointed to the Client or an administrator, receiver, receiver and manager or official manager is appointed over all or a part of the Client's property or an encumbrancer or its agent takes possession of all or part of the Client's property or the Client enters into any scheme of arrangement with creditors under Part 5.1 of the Corporations Act;

(c) the Client makes any representation that is incorrect or misleading in any material way with the result that loss or damage is, or is likely to be, suffered by Pershing;

(d) in the absence of the Client making alternative arrangements, the Client is at any time not contactable by the Broker immediately in order for Pershing to obtain instructions or call for payment of money or the provision of other security;

(e) the conduct of the Client is such that a reasonably prudent correspondent would be of the view that the Client would be unable to comply with all the Client's obligations under this agreement, including strict compliance with any time limits;

(f) the Client fails to complete a contract for the transfer of Underlying Financial Products following the exercise of an Derivatives Contract;

(g) a guarantee or other security provided by the Client to Pershing is withdrawn or becomes ineffective and other replacement security acceptable to Pershing is not provided;

(h) the Client "fails to settle" for the purpose of the terms of the Client's agreement with Pershing set out in the Disclosure Statement (if any) provided to the Client by the Broker in respect of the clearing and settlement of transactions in financial products quoted on ASX or other Market Transactions; or

(i) any other event occurs which Pershing and the Client have agreed in this agreement constitutes a default,

(each a **default**), Pershing may, in addition to any other rights which it may have against the Client, without giving prior notice to the Client, take any action, or refrain from taking action, which it considers reasonable in the circumstances in connection with Derivatives Contracts registered in the Client Account or otherwise entered into for the account of the Client (including, Derivatives Contracts arising from those contracts) and, Pershing may:

(j) enter into one or more transactions (whether on-market or by private contract, together or in lots for cash or credit and for a price or prices upon such terms and conditions in all respects as Pershing sees fit) to effect the close out of one or more Derivatives Contracts in accordance with the ASX Clear Rules;

(k) exercise one or more Derivatives Contracts in accordance with the ASX Clear Rules;

(l) enter into or execute any Cash Market Transaction or Derivatives Transaction (including a Futures Market Transaction) as Pershing sees fit, whether or not the Client is permitted under clause 1;

(m) sell or cause to be sold:

  (i) any or all of the Client's property, including any security lodged with Pershing (whether the property or security had been lodged with Pershing in connection with this agreement or for any other reason) or held by Pershing or its Related Bodies Corporate on behalf of the Client or in a Holding in respect of which Pershing, its nominee company or a Related Body Corporate of Pershing is the Controlling Participant; and

  (ii) any financial products held by Pershing in an account for the Client or otherwise held (including any financial products in a Holding in respect of which Pershing, its nominee company or a Related Body Corporate of Pershing is the Controlling Participant);

(n) exercise any other power, right or remedy which Pershing may have under this agreement or in law or equity;

(o) exercise or cause to be exercised any other rights conferred by the ASX Operating Rules, the ASX Clear Rules or this agreement or perform any other obligations arising under the ASX Operating Rules, the ASX Clear Rules or this agreement in respect of any Derivatives Contracts or Derivatives Transactions;

(p) charge an administration fee calculated by reference to the additional cost which may be incurred by Pershing as a result of the default;

(q) levy a default charge on the amount of up to 15% per annum;

(r) apply any cash held by Pershing or the Broker on the Client's account or to which they have access (including any amount held), or payments received from the Client or in reduction of the Client's liability to Pershing; or

(s) instruct the Broker to cancel any of the Client's unexecuted orders,

and the Client must account to Pershing as if those actions were taken on the instructions of the Client and, is liable for any deficiency and is entitled to any surplus which may result.

In relation to any of the rights exercisable for the benefit of Pershing in the event of a default, the Client authorises Pershing and each of its directors and employees as the Client's attorney to give instructions on behalf of the Client in respect of the Client's holdings of financial products in a in respect of which Pershing, its nominee company or a Related Body Corporate of Pershing is the Controlling Participant, or held by Pershing, its nominee company or by their Related Bodies Corporate in nominee holdings, and in respect of call deposit facilities or cash management trust accounts on which they are authorised to give instructions, to enable Pershing to realise those financial products or funds and apply the proceeds in reduction of the Client's liability to Pershing and to recover Pershing's costs in so acting.

The Client must pay or reimburse Pershing any such administration fees and default charges (together with any GST payable on those amounts) immediately upon demand or at Pershing's option it may deduct such administration fees and default charges (and any GST) from any proceeds of sale, or proceeds from the close out or exercise of rights in relation to a Derivatives Contract, or other amounts otherwise payable to the Client.

Pershing will not be liable to the Client for any failure by Pershing to exercise (or any delay in the exercise by Pershing of) any power under this clause, or any loss incurred by the Client as a result of Pershing not exercising any of its powers under this clause 5 immediately, or at all, following an event of default by the Client.

The Client acknowledges that Pershing, in exercising any of it rights under this clause 5.4, is entitled to act to protect its own interests and is under no obligation to subordinate the protection of its own interests to those of the Client.

5.5 Effect of liquidation of contract following default

Upon close out of any Derivatives Contract in accordance with clause 5.4, the Client is liable to pay to Pershing any amount owing to Pershing in respect of that contract. If the Client fails to make that payment within the time specified by Pershing (which time is of the essence), Pershing may deal with any of the Client's money or other property held by Pershing and apply the proceeds against that amount.

5.6 Assignment to the Broker of amounts owing

If the Client has not paid any amount due to Pershing under this agreement, in addition to its rights under clause 5.4, Pershing may assign that debt to the Broker and the assigned debt will become an obligation of the Client's to the Broker.

5.7 Method of Payment

Where money is payable to Pershing by the Client (for example where Pershing has called for payment of money under clause 3.1 or has notified the Client of commissions and fees in accordance with clause 4), the Client:

(a) is not permitted to make payment in cash; and

(b) will be entitled to make payment from a cheque or savings account by BPAY, where the relevant document provided by the Broker (such as a confirmation or notice as the case may be) bears a Biller Code. Payment by this means will only be acceptable to Pershing if the Client quotes the relevant Biller Code and its BPAY reference number.

5.8 Release

In consideration of Pershing entering into this agreement with the Client, the Client releases Pershing (and its related bodies corporate and their respective directors, officers, employees and agents) (the **Released Parties**) in respect of all present or future claims the Client may have against the Released Parties or any of them arising out of or in connection with the exercise by Pershing of any of its rights under this clause 5.

6. ACKNOWLEDGMENTS AND WARRANTIES

6.1 Change of Participant [ASX Clear Minimum Term 16]

If the Client receives a Participant Change Notice from Pershing and the Participant Change Notice was received at least 20 Business Days prior to the date proposed in the Participant Change Notice for the change of Participant, the Client is under no obligation to agree to the change of Participant, and may choose to do any of the things set out below.

The Client may choose to terminate this agreement in accordance with clause 10.1 or by giving instruction to Pershing, indicating that the Client wishes to transfer its Derivatives Contracts to another Participant.

If the Client does not take any action to terminate this agreement and does not give any other instructions to Pershing which would indicate that the Client does not agree to the change of Participant then, on the Effective Date, this agreement will have been taken to be novated to the new Participant and will be binding on all parties as if on the Effective Date:

(a) the new Participant is a party to these this agreement in substitution for Pershing;

(b) any rights of Pershing are transferred to the new Participant; and

(c) Pershing is released by the Client from any obligations arising on or after the Effective Date,

and the Client will also be taken to have consented to and authorised:

(d) the transfer to the new Participant of all the Client's open Derivatives Contracts as at the Effective Date so that they will be registered with ASX Clear in the new Participant's name;

(e) the payment or transfer to the new Participant (or a Controlling Participant or nominee nominated by the new Participant) on the Effective Date of all money and other security (including all Pershing Cover) provided to Pershing under this agreement before the Effective Date to be held by the new Participant (or by the nominee or in a Holding in respect of which the new Participant (or another Controlling Participant nominated by the new Participant) is the Controlling Participant as the case may be) under clause 3 of this agreement as novated,

and, if the Client has executed before the Effective Date a Registered Holder Collateral Cover Authorisation under which the Client authorised a Controlling Participant to reserve (or withdraw) financial products registered in the Client's name in the ASX Clear Subposition as Collateral Cover for obligations in respect of Derivatives Contracts registered with ASX Clear in Pershing's name in a Client Account in respect of the Client, the Client is also taken to have appointed the new Participant and each director, secretary and officer of the new Participant for the time being as the Client's attorney to complete and execute a Registered Holder Collateral Cover Authorisation under which the Client authorises that Controlling Participant to reserve (or withdraw) financial products registered in the Client's name in the ASX Clear Subposition as Collateral Cover for obligations in respect of Derivatives Contracts registered with ASX Clear in the new Participant's name in a Client Account in respect of the Client.

The novation cannot take effect until the Client has received a notice from the new Participant confirming that the new Participant consents to acting as the Participant for the Client. The Effective Date may as a result be later that the date set out in the Participant Change Notice.

The Client will be taken to have consented to the events referred to above by the doing of any act which is consistent with the novation of this agreement to the new Participant (for example by giving an instruction to the new Participant), on or after the Effective Date, and such consent will be taken to be given as of the Effective Date.

This agreement continues for the benefit of Pershing in respect of any rights and obligations accruing before the Effective Date and, to the extent that any law or provision of any agreement makes the novation not binding or effective on the Effective Date, then this agreement will continue for the benefit of Pershing until such time as the novation is effective, and the existing Participant will hold the benefit of this agreement on trust for the new Participant.

Nothing in this clause 6.1 will prevent the completion of Derivatives Transactions or Derivatives Contracts by Pershing where the obligation to complete those transactions or contracts arises before the Effective Date and this agreement will continue to apply to the completion of those contracts, notwithstanding the novation of this agreement to the new Participant under this clause 6.1.

6.2 Explanatory Booklet and other documents [ASX Clear Minimum Term 3]

The Client has received and read a copy of the current explanatory booklet published by ASX in respect of each ASX Derivative Product. This does not apply in relation to a Client that is a Wholesale Client.

The Client acknowledges that it has read and understood the documents (if any) given to it under ASX Clear Rule 7.1.1(b).

6.3 Risk and investment in ASX Derivative Products [ASX Clear Minimum Term 3]

The Client acknowledges that trading in ASX Derivative Products incurs a risk of loss as well as a potential for profit.

The Client acknowledges that it has given consideration to its objectives, financial situation and needs and has formed the opinion that dealing in ASX Derivative Products is suitable for its purposes.

6.4 Dealing as Principal and Pershing taking opposite position [ASX Clear Minimum Term 5]

The Client acknowledges that Pershing may, in certain circumstances permitted under the Corporations Act and the ASIC Market Integrity Rules, or the ASX Clear Rules, take the opposite position in a Derivatives Contract, either acting for another client or on its own account.

6.5 Confirmations

The Client acknowledges that any confirmation (contract note/daily statement) dispatched electronically to the Client by Pershing on its own behalf or on behalf of the Broker is subject to:

(a) the terms and conditions of this agreement;

(b) the ASIC Market Integrity Rules, ASX Operating Rules, directions, decisions and requirements of ASX and where relevant, the ASX Settlement Rules;

(c) the customs and usages of the Market (as defined in the ASIC Market Integrity Rules); and

(d) the correction of errors and omissions.

6.6 Cancellation of trades

The Client authorises Pershing, and agrees that Pershing may, without the Client's consent, cancel or amend (or request or agree to the cancellation or amendment of) any Derivatives Contract to which a confirmation relates:

(a) if ASX exercises its power under the ASX Operating Rules to cancel or amend (or require the cancellation or amendment of) the Derivatives Transaction or Derivatives Contract; or

(b) in the event of an Error (as defined in the ASX Operating Rules) or otherwise in the circumstances contemplated in the ASX Operating Rules.

The obligations of Pershing and the Client relating to the settlement of a transaction cease to apply in respect of a cancelled transaction from the time it is cancelled.

7. INFORMATION

7.1 Provision of Information [ASX Clear Minimum Term 2]

The Client will take all reasonable steps to deliver information or documentation to Pershing, or cause information or documentation to be delivered to Pershing concerning Derivatives Transactions which are requested by a person having a right to request such information or document. Pershing is authorised to produce the information or documentation to the person making the request.

7.2 Tape recording of conversations [ASX Clear Minimum Term 9]

The Client agrees that Pershing may record telephone conversations between the Client and Pershing. The Client also agrees that Pershing may use such recordings for the purposes of resolving disputes, and monitoring compliance by the Client, or the Broker with their regulatory and contractual obligations. If there is a dispute between the Client and Pershing, the Client has the right to listen to any recording of those conversations. Nothing in this agreement obliges Pershing to keep a recording longer than 90 days.

8. ALLOCATION (GIVE UP)

8.1 Pershing must consent to any give up

The Client acknowledges that Pershing is obliged as principal and has the Clearing Obligations in respect of all transactions in relation to ASX Derivative Products which are executed by the Broker on behalf of the Client, unless, in relation to a specified Derivatives Contract (Allocated Trade):

(a) the Client has consented to the allocation of the Derivatives Contract to another Participant;

(b) Pershing has consented to the allocation of the Derivatives Contract to that other Participant;

(c) Pershing has provided that consent prior to the Derivatives Contract being registered with ASX Clear;

(d) that other Participant has accepted the allocation of that Derivatives Contract in accordance with the ASX Clear Rules; and

(e) that other Participant has entered into a Client Agreement with the Client which complies with the ASX Clear Rules.

8.2 Pershing ceases to have Clearing Obligations following give up

Clauses 3.1 and 5.4 do not apply in relation to an Allocated Trade, where the Client directs that trades be allocated to a Participant (who is not Pershing) for registration in the relevant Client Account of that other Participant and the other Participant accepts the allocation of those trades for registration, and the trade is allocated by Pershing to the other Participant in accordance with the ASX Clear Rules.

9. INDEMNITY

The Client agrees to indemnify and keep indemnified Pershing from all claims, losses, liabilities, damages and costs (including legal costs on a solicitor and client basis) whatever and however arising suffered or incurred by Pershing directly or indirectly arising out of or in connection with:

(a) Pershing acting as Clearing Participant for the purposes of the ASX Operating Rules and as General Participant for the purposes of the ASX Clear Rules as contemplated by this agreement;

(b) the performance by Pershing of its obligations under this agreement;

(c) any failure by the Client to strictly comply with, or to perform any of its obligations under, this agreement;

(d) any representation or warranty given by the Client under this agreement proving to be untrue or incorrect; or

(e) any Allocated Trade.

10. TERMINATION OF AGREEMENT

10.1 Termination by notice [ASX Clear Minimum Term 11]

Either the Client or Pershing may terminate this agreement at any time by giving notice in writing to the other. Termination will be effective upon receipt of the notice by the other party.

10.2 Effect of termination [ASX Clear Minimum Term 12]

Termination does not affect the existing rights and obligations of the Client or Pershing at or prior to termination. Upon termination of this agreement, Pershing will close out all Derivatives Contracts held by Pershing for the account of the Client, unless, in accordance with a direction from the Client, the registration of those contracts are transferred to another Participant in accordance with the ASX Operating Rules or ASX Clear Rules.

11. AMENDMENT

11.1 Revised Terms prescribed by ASX Clear [ASX Clear Minimum Term 13]

If ASX Clear prescribes amended minimum terms for a Client Agreement for the purposes of the ASX Clear Rules (New Terms), to the extent of any inconsistency between this agreement and the New Terms, the New Terms will override this agreement and apply as if the Client and Pershing had entered into an agreement containing the New Terms.

11.2 Pershing to provide Client with copy of changes [ASX Clear Minimum Term 14]

Pershing will provide a copy of the New Terms to the Client as soon as practicable after ASX Clear or ASX prescribes the New Terms.

12. SET OFF

Without limiting clause 5.3, Pershing may, without notice to the Client, combine any account that the Client holds at any branch or office (in Australia or elsewhere) of Pershing with, or set off any amount in any currency that is or may become owing in any currency by Pershing (or any Related Body Corporate or Pershing) to the Client against, any amount owing by the Client to Pershing (or any Related Body Corporate of Pershing). For this purpose Pershing may:

(a) change the terms (including the repayment date) of any account or other payment obligation between the parties;

(b) convert amounts into different currencies in accordance with Pershing 's usual practice; and

(c) do anything (including execute any document) in the name of the Client that Pershing considers necessary or desirable.

This clause 12 overrides any other document or agreement to the contrary.

13. NOTICES

Any confirmation, statement or other written notice (including legal process) served by Pershing on the Client, or served by the Client on Pershing pursuant to this agreement will be deemed to have been duly served and received:

(a) if given by hand, at the time left at the relevant party's last known place of residence or business;

(b) if given by mail, 2 Business Days after it is posted where the recipient party's last known address is in Australia, and ten Business Days after it is posted by airmail where the recipient party's last known address is outside Australia;

(c) if given by telex, upon receipt of the recipient party's answer back;

(d) if given by telegram, six hours after dispatch to the recipient party;

(e) if given by facsimile transmission, at the time of transmission to the recipient party's last known facsimile number, or upon acknowledgment by the recipient party; or

(f) if given electronically, upon receipt of a confirmation of delivery by the party giving the notice of the electronic mail message to the last known electronic mail address of the recipient party.

Unless otherwise specified in this agreement, notices served by Pershing on the Client need not be in writing. In particular, a call under clause 3.1 may be made by telephone to the Client by Pershing or by the Broker on Pershing's behalf.
Pershing may arrange for any notice to be given by Pershing to the Client under this agreement or the ASX Clear Rules to be given to the Client by the Broker acting as Pershing or Pershing Nominee's agent. Pershing may also provide the Broker with a copy of any such communication or notice given to the Client by (or on behalf of) Pershing.
The Client hereby indemnifies Pershing against any liability, damage, cost or expense incurred by Pershing arising out of Pershing acting (or declining to act) upon a facsimile request or instruction received by Pershing whether directly or through a request made of an officer or employee of any Related Body Corporate of Pershing from the Client or any person purporting to be the Client or the Client's Authorised Representative or agent.
Pershing may reserve the right to refuse any instruction transmitted by facsimile.

14. AUTHORITY

The Client acknowledges that the Client is either:
(a) acting as principal; or
(b) acting as an intermediary on another's behalf and is specifically authorised to transact the ASX Derivative Products, by the terms of:
  (i) an Australian financial services licence under the Corporations Act held by the Client;
  (ii) a trust deed (if the Client is a trustee); or
  (iii) an agency contract.

15. REPRESENTATIONS AND WARRANTIES AS TO CAPACITY

The Client represents and warrants to Pershing that:
(a) where the Client is a body corporate, the Client is (and will remain) duly incorporated under the laws of the place of its incorporation and has full power and authority to enter into this agreement and deal in ASX Derivative Products, and any person executing this agreement has full power and authority to execute this agreement on behalf of the Client;
(b) where the Client is a partnership, the Client has full power and authority to enter this agreement and to deal in ASX Derivative Products, and the person executing this agreement has full power and authority to execute this agreement on behalf of the Client;
(c) where the Client is a natural person, the Client has legal capacity to execute this agreement; and

in any of the above cases, where the Client enters this agreement as trustee, the Client has full power and authority as such trustee to enter this agreement and to deal in ASX Derivative Products and has the right to be indemnified out of the assets of the relevant trust in respect of all and any of its obligations and liabilities under this agreement.

16. INSTRUCTIONS AND AUTHORISED REPRESENTATIVES

16.1 Powers of Authorised Representatives

The Client agrees that each of the persons stated in the application form (or otherwise notified by the Client to Pershing) to be an Authorised Representative of the Client has power for and on behalf of the Client and in the Client's name to:
(a) give instructions to Pershing in relation to Pershing Cover of the Client or in relation to the Derivatives Transactions or Derivatives Contracts including to directing or consenting to dealing by Pershing in any Pershing Cover, Derivatives Transactions of Derivatives Contracts of the Client and any application of the proceeds of any such dealing;
(b) request and accept drawings;
(c) do all other acts and things (including completing, executing and delivering documents) as the Authorised Representative thinks necessary or desirable to give effect to the above powers or otherwise in connection with this agreement; and
(d) appoint other persons (each a "Delegate") with power to exercise all or any of the powers of the Authorised Representative conferred by this clause 16.

16.2 Ratification of Decisions

The Client agrees to ratify and confirm anything done by the Authorised Representative or a Delegate in the exercise of the above powers.

16.3 Revocation of Power

The Client may revoke an Authorised Representative's powers by notice in writing to Pershing. A declaration by an Authorised Representative to the effect that his or her powers have not been revoked is conclusive evidence of that fact and binding on the Client.

16.4 Indemnity

The Client hereby indemnifies each of Pershing against any liability, damage, cost or expense incurred by Pershing arising out of it acting upon an oral request received by it whether directly or through a request made of an officer or employee of any Related Body Corporate of Pershing from the Client or any person purporting to be the Client or the Client's Authorised Representative or agent.

17. NO ADVICE

17.1 Pershing does not provide financial product advice

The Client acknowledges that Pershing does not provide financial product advice, and Pershing does not accept responsibility for any financial product advice given to the Client by the Broker, and the Client must not represent to any person that Pershing has given any financial product advice to the Client.
If the Client is to trade in ASX Derivative Products on the basis of advice given to the Client by the Broker, the Client must provide the Broker with:
(a) all information (and documentation) regarding the Client's financial situation, investment objectives and particular needs sufficient and necessary for the Broker to give informed financial product advice;
(b) any relevant new information (and documentation) as soon as it becomes available; and

details of or any change in the Client's financial situation, investment objectives and particular needs as soon as such change occurs.

17.2 Manner in which Pershing exercises its rights is not to be taken to be advice

Pershing has various rights under this agreement, including:
(a) the right under clause 3 to require the Client to provide Pershing Cover; and
(b) various rights under clause 5 if a default occurs in relation to the Client.

The manner in Pershing may exercise or not exercise, or the timing of or any delay in any exercise by Pershing of, any right of Pershing under this agreement is not to be taken to be financial product advice by Pershing to the Client, and the Client must not represent to any person that it is financial product advice by Pershing.

18. GENERAL

18.1 Costs and Taxes

The Client will pay Pershing on demand all stamp duty or any other duty imposed by state or federal legislation and registration fees (if any) payable on or in connection with this agreement and any documents executed under or in connection with this agreement and all legal costs (on a solicitor and own client basis) and expenses of or in connection with the enforcement or attempted enforcement of this agreement and all costs and expenses including financial institutions duty and debits tax (whether payable directly by Pershing or payable by Pershing by way of reimbursement to the party liable to pay the same) in relation to all transactions (including payments, receipts and banking thereof) and all matters connected with or arising out of or contemplated by this agreement.

18.2 Entire agreement

This agreement contains the entire agreement between the parties about its subject matter. Any previous understanding, agreement, representation or warranty relating to that subject matter is replaced by this agreement and has no further effect.

18.3 Statements by Pershing

A statement by Pershing on any matter relating to this agreement (including any amount owing by the Client) is conclusive unless clearly wrong on its face.

18.4 Exercise of rights

No failure or delay on the part of Pershing in exercising any right, power or remedy under this agreement and no course of dealing between Pershing and the Client shall operate as a waiver of any breach or default by the Client nor shall any single or partial exercise of any such right, power or remedy preclude any further or other exercise of that or any other right, power or remedy.

18.5 Amendments

Except as provided in this agreement (including in clause 11):
(a) this agreement may only be amended in writing;
(b) Pershing may amend this agreement at any time by giving written notice to the Client; and
(c) an amendment will take effect on and from the date specified by Pershing in the notice being a date not less than 10 Business Days after the date of the notice.

18.6 Assignment

The rights and obligations of the Client under this agreement are not capable of assignment. Pershing may assign or transfer its rights under this agreement or in relation to any Pershing Cover without the consent of the Client and free from any rights of set-off or counterclaim. Subject to the ASX Settlement Rules, Pershing may assign or transfer its rights under this agreement without the consent of the Client and free from any rights of set-off or counterclaim.

18.7 Giving effect to agreement

Each party must do anything (including sign or give effect to any document) that Pershing may reasonably require, to give full effect to this agreement or the transactions contemplated by this agreement (including the provisions of clause 5).
The Client appoints Pershing and each officer of Pershing for the time being (each an Attorney) jointly and each of them severally to be the attorney of the Client with power in the Client's name and on behalf of the Client to execute any document or sign any agreement on the Client's behalf necessary or to give full effect to this agreement or the transactions contemplated by this agreement.

18.8 Trust provisions

Where the Client enters into this agreement as trustee of a trust this agreement will bind that person both in its personal capacity and in its capacity as trustee of that trust and the Client represents and warrants to Pershing that:
(a) it can be indemnified out of the assets of the trust for all liabilities incurred under this agreement;
(b) it will remain the owner of the Pershing Cover unless it disposes of them in accordance with this agreement;
(c) Pershing can be subrogated to its right of indemnity;
(d) the transactions contemplated by this agreement are for the benefit and in the best interests of the beneficiaries of the trust; and
(e) it has properly exercised its trust powers and has full authority under the trust to enter into the document containing this agreement.

18.9 Joint and several liability

If the Client constitutes more than one person then each of those persons is jointly and severally bound by this agreement and Pershing are entitled to act on the instructions of any one of those persons.

18.10 Supervening legislation

Any present or future legislation which operates to vary the obligations of the Client in connection with this agreement, Pershing Cover with the result that Pershing's rights, powers or remedies are adversely affected (including, by way of delay or postponement) is excluded except to the extent that its exclusion is prohibited or rendered ineffective by law.

18.11 No withholding

All payments to be made to Pershing must be made without deduction or withholding. If the Client is obliged by law to deduct or withhold any amount from any payment to be made under this agreement the Client will concurrently pay to Pershing such additional amount as will result in Pershing receiving the full amount which would have been received if the deduction or withholding had not been made.

18.12 Currency

All payments under this agreement are to be made in Australian dollars, except as Pershing otherwise agrees. If for any reason (including any judgment or order) any amount payable by the Client under this agreement is received or recovered by Pershing in another currency which, upon conversion of the other currency into Australian dollars, is less than the amount which would have been received by Pershing if paid in Australian dollars, then the Client must as an independent obligation indemnify Pershing on demand against the deficiency.

18.13 Recovery of GST

If GST has application to any Supply made under or in connection with this agreement, Pershing may in addition to any amount or consideration payable to it under this agreement, recover from the Client an additional amount on account of GST, such amount to be calculated by multiplying the amount or consideration payable by the Client to it at the prevailing GST rate.

Any additional amount on account of GST recoverable from the Client under this clause shall be calculated without any deduction or set-off of any other amount and is payable by the Client upon demand of Pershing, whether such demand is by invoice or otherwise. To the extent that any party to the Terms ("the Supplier"), is or becomes liable to pay GST in connection with any Supply made under this agreement;

(a) the Supplier may add an amount in respect of that GST to the agreed price of the supply;

(b) any party paying consideration for the Supply will pay the agreed price plus the amount in respect of GST; and

(c) where required by the GST Law, the Supplier will issue a tax invoice which enables the person receiving the invoice, if permitted by the GST Law, to claim an input tax credit or refund of GST.

18.14 Governing law

This agreement are governed by the law in force in New South Wales and the Client, Pershing submit to the non-exclusive jurisdiction of the courts of New South Wales and courts which may hear appeals from those courts.

19. DEFINITIONS AND INTERPRETATION

19.1 Definitions

In this agreement unless the contrary intention appears:

ASIC means the Australian Securities and Investments Commission.

ASIC Market Integrity Rules means the *ASIC Market Integrity Rules (ASX Market) 2010.*

Allocated Trade has the meaning given to it in clause 8.1.

ASX means ASX Limited ABN 98 008 624 691 or, where the context requires, the market operated by it.

ASX Clear means ASX Clear Pty Limited ABN 48 001 314 503.

ASX Clear Rules means the operating rules of ASX Clear as amended from time to time.

ASX Derivative Product has the meaning given to it in clause 1.

ASX Operating Rules means the operating rules of ASX as amended from time to time.

ASX Settlement means ASX Settlement Pty Ltd ABN 49 008 504 532 and its agents appointed under the ASX Settlement Rules.

ASX Settlement Rules means the operating rules of ASX Settlement as amended from time to time.

Authorised Representative means each of the persons stated in the application form (or subsequently notified by the Client to Pershing in a form acceptable to Pershing) to be an Authorised Representative of the Client.

Banking Day means a day (other than a Saturday or Sunday) on which banks are open for business in Melbourne.

Business Day means a day that is both a Trading Day under the ASX Operating Rules and a Business Day under the ASX Clear Rules.

Cash Market Transaction has the meaning given to it in the ASX Operating Rules

Clearing Participant has the meaning given to it in the ASX Operating Rules.

Client means the client named in the Client Application Form.

Controlling Participant has the meaning ascribed to it by ASX Settlement Rules and includes a person who upon a change of Controlling Participant would be a Controlling Participant.

Corporations Act means the *Corporations Act 2001* (Cth).

Derivatives Contract means a Derivatives Market Contract or Derivatives CCP Contract (each as defined in the ASX Clear Rules) or the corresponding contract between the Broker and the Client or the Broker, as the context requires.

Derivatives Transaction has the meaning given to Derivatives Market Transaction in the ASX Operating Rules and where the context requires includes the sale or purchase of financial products following the exercise of a Derivatives Contract.

Encumbrance means any Security Interest, notice under sections 218 or 255 of the *Income Tax Assessment Act 1936* (Cth) or under any similar provision of a State, Territory or Commonwealth law, profit a prendre, equity, interest, garnishee order, writ of execution, right of set-off, assignment of income or monetary claim, and any agreement to create any of them or allow them to exist.

Futures Market Transaction has the meaning given to it in the ASX Operating Rules.

GST means a goods and services tax or any similar tax imposed in Australia.

GST Law has the meaning given to it in the *A New Tax System (Goods and Services Tax) Act 1999* (Cth).

Holding has the meaning given to it in the ASX Settlement Rules.

Order means an order or instruction in respect of a client or the Broker as principal (as the case may be) in relation to a Derivatives Transaction, and includes, without limitation, an order or instruction to:

(a) open or close a position in relation to a Derivatives Contract;

(b) submit an Exercise Notice to ASX Clear in relation to a Derivatives Contract; and

(c) buy or sell an Underlying Financial Product.

Pershing Cover has the meaning given to it in clause 3.1.

Related Body Corporate has the meaning given to it in section 50 of the Corporations Act.

Security Interest means any bill of sale (as defined in any statute), mortgage, charge, lien, pledge, hypothecation, title retention arrangement, trust or power, as or in effect as security for the payment of a monetary obligation or the observance of any other obligation.

Supply has the meaning given to it in the GST Law.

Underlying Financial Product has the meaning given to it in the ASX Operating Rules.

Other words and phrases defined in the ASX Operating Rules, the ASX Clear Rules or the ASX Settlement Rules have the meaning given in the corresponding rules. The Client may inspect a copy of these rules at Pershing's offices on request.

19.2 Interpretation

In this agreement unless the contrary intention appears:

(a) each gender includes the other genders;

(b) a reference to a statute, ordinance, code or other law includes regulations and other instruments under it and consolidations, amendments, re-enactments or replacements of any of them;

(c) a reference to this agreement or another agreement includes any variation or replacement of them;

(d) the word person includes a firm, a body corporate, an unincorporated association or an authority;

(e) a reference to a person includes a reference to the person's executors, administrators, successors, substitutes (including persons taking by novation) and assigns;

(f) a reference to any thing (including any amount and Pershing Cover) is a reference to the whole and each part of it and a reference to a group of persons (including the Client) is a reference to all of them collectively, to any two or more of them collectively and to each of them individually;

(g) if an example is given of anything (including a right, obligation or concept), the example does not limit the scope of that thing. For example, a reference to "including" means "including without limitation"; and

(h) the singular includes the plural and vice versa.

19.3 Headings

Headings are for convenience only and do not affect the interpretation of this agreement.

19.4 Banking Days

If any payment falls due on a non-Banking Day it will be made on the succeeding Banking Day.

19.5 Clients

Where the Client comprises more than one person, the obligations of those persons under this agreement shall be joint and several, a notice or demand given to one such person shall be deemed to have been given to all such persons, and, unless expressly agreed with Pershing to the contrary, each such person shall be deemed to be the agent of the others.

Understanding options trading

A GUIDE TO UNDERSTANDING OPTIONS TRADED ON ASX

ASX

Disclaimer

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Contents

Before you begin

The ASX options market has been operating since 1976. Since the market started, volumes have increased significantly. There are now over 60 different companies and the S&P ASX 200 share price index to choose from. A list of companies over which Exchange Traded Options (options) are traded can be found on the ASX website, **www.asx.com.au/options**.

This booklet explains the concepts of options, how they work and what they can be used for. It should be noted that this booklet deals exclusively with Exchange Traded Options over listed shares and indices, and not company issued options. Information on other ASX products is available by calling 131 279 or visiting **www.asx.com.au**. To assist in your understanding there is a glossary of terms on page 35.

Option sellers are referred to as 'writers' because they underwrite (or willingly accept) the obligation to deliver or accept the shares covered by an option. Similarly, buyers are referred to as the 'takers' of an option as they take up the right to buy or sell a parcel of shares.

Every option contract has both a taker (buyer) and a writer (seller). Options can provide protection for a share portfolio, additional income or trading profits. Both the purchase and sale of options, however, involve risk. Transactions should only be entered into by investors who understand the nature and extent of their rights, obligations and risks.

What is an option?

An option is a contract between two parties giving the taker (buyer) the right, but not the obligation, to buy or sell a security at a predetermined price on or before a predetermined date. To acquire this right the taker pays a premium to the writer (seller) of the contract.

For illustrative purposes, the term shares (or stock) is used throughout this booklet when referring to the underlying securities. When considering options over an index, the same concepts generally apply. From time to time options may be available over other types of securities.

The standard number of shares covered by one option contract on ASX is 100. However, this may change due to adjustment events such as a new issue or a reorganisation of capital in the underlying share.

All of the examples in this booklet assume 100 shares per contract and ignore brokerage and ASX fees. You will most definitely need to consider these when evaluating an option transaction. For options over an index, the contract value is based on a dollar value per point. Details can be checked in the contract specifications.

There are two types of options available: call options and put options.

Call options

Call options give the taker the right, but not the obligation, to buy the underlying shares at a predetermined price, on or before a predetermined date.

Call option example

Santos Limited (STO) shares have a last sale price of $8.00. An available 3 month option would be an STO 3 month $8.00 call. A taker of this contract has the right, but not the obligation, to buy 100 STO shares for $8.00 per share at any time until the expiry*. For this right, the taker pays a premium (or purchase price) to the writer of the option. In order to take up this right to buy the STO shares at the specified price, the taker must exercise the option on or before expiry.

On the other hand, the writer of this call option is obliged to deliver 100 STO shares at $8.00 per share if the taker exercises the option. For accepting this obligation the writer receives and keeps the option premium whether the option is exercised or not.

It is important to note that the taker is not obligated to exercise the option.

* The expiry day for stock options is usually the Thursday before the last Friday in the expiry month unless ASX Clear determines another day. This may change for various reasons (eg. for public holidays), so please check with your broker. For index options, refer to the contract specifications. Please be aware this may change from 2016 with some stock options migrating to expiry day being the third Thursday. Please check the ASX website or contact your broker.

Put options

Put options give the taker the right but not the obligation to sell the underlying shares at a predetermined price on or before a predetermined date. The taker of a put is only required to deliver the underlying shares if they exercise the option.

Put option example

An available option would be an STO 3 month $8.00 put. This gives the taker the right, but not the obligation, to sell 100 STO shares for $8.00 per share at any time until expiry. For this right, the taker pays a premium (or purchase price) to the writer of the put option. In order to take up this right to sell the STO shares at a specified price the taker must exercise the option on or before expiry. The writer of the put option is obliged to buy the STO shares for $8.00 per share if the option is exercised. As with call options, the writer of a put option receives and keeps the option premium whether the option is exercised or not.

It is important to note that the taker is not obligated to exercise the option.

If the call or put option is exercised, the shares are traded at the specified price. This price is called the exercise or strike price. The last date when an option can be exercised is called expiry day.

There are two different exercise styles: American style, which means the option can be exercised at any time prior to the expiry; and European style, which means the option can only be exercised on the expiry day. Most stock options traded on ASX are American style.

Advantages of option trading

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 shares. 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 1 call option and 100 shares. The higher percentage return from the option demonstrates how leverage can work.

	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.

It is important that you balance the advantages of trading options with the risks before making any decisions. Details of the risks of options trading are set out on page 27.

Option features

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

1. Underlying securities
2. Contract size
3. Expiry day
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 Pty Limited (ASX Clear) operates the clearing facility for ASX's options market. Among ASX's responsibilities is the setting of the standardised option components.

1 option contract usually represents 100 underlying shares.

The 5 components of an option contract

1. Underlying securities/approved indices

Options traded on ASX's options market are only available for certain securities and the S&P ASX 200 share price index. These securities are referred to as underlying securities or underlying shares. They must be listed on ASX and are selected by ASX Clear according to specific guidelines. The issuers of underlying securities do not participate in the selection of securities against which options may be listed.

Calls and puts over the same underlying security are termed classes of options. For example, all call and put options listed over Lend Lease Corporation (LLC) shares, regardless of exercise price and expiry day, form one class of option. A list of all the classes of options trading on ASX's options market can be found on the ASX website **www.asx.com.au/options** (in the 'Related information' section on the 'Volatility parameters and ETO class rankings' page).

2. Contract size

On ASX's options market an option contract size is standardised at 100 underlying shares. That means, 1 option contract represents 100 underlying shares. As mentioned earlier, this may change if there is an adjustment such as a new issue or a reorganisation of capital in the underlying share. In the case of index options, contract value is fixed at a certain number of dollars per index point (for example, $10 per index point). The size of the contract is equal to the index level x the dollar value per index point (for example, for an index at 4,500 points, 1 contract would be 4,500 x $10 = $45,000).

3. Expiry day

Options have a limited life span and expire on standard expiry days set by ASX Clear. The expiry day is the day on which all unexercised options in a particular series expire and is the last day of trading for that particular series.

For options over shares this is usually the Thursday before the last Friday in the month.*

For index options, expiry is usually the third Thursday of the contract month. ASX will also list weekly index options with the next two to three weeks available, expiry day is Thursday. However, ASX Clear has the right to change this date should the need arise.

As options expire new expiry months are added further out.

All option classes (stock or index) have expiries based on the financial quarters (March, June, September and December).

* Please be aware this may change from 2016 with some stock options migrating to expiry day being the third Thursday. Please check the ASX website or contact your broker.

For example, a June expiry means that the option expires on the expiry day in June. If Thursday or Friday are not business days, the expiry day is brought forward to the next business day.

A full list of all options series available for trading is available on the ASX website, **www.asx.com.au/options** in the csv file 'Listed ETO code list' in the 'Related information' section. This list is updated daily.

You can find a useful expiry calendar on the ASX website: www.asx.com.au/options under "Expiry calendar" in the 'Quick links' section.

For detail on option listing guidelines please view the "Option listing guidelines.pdf" on the ASX website: **www.asx.com.au/options** in the "Quick links" section.

4. Exercise (or strike) prices

The exercise price is the predetermined buying or selling price for the underlying shares if the option is exercised.

ASX Clear sets the exercise prices for all options listed on ASX's options market with a range of exercise prices available for options on the same expiry. New exercise prices are listed as the underlying share price moves.

For example, if the underlying share is trading at $3.50, it is likely that option contracts with the following strike prices would be listed: $3.00, $3.25, $3.50, $3.75 and $4.00. A range of exercise prices allows you to more effectively match your expectations of the price movement in the underlying share to your option position. Exercise prices may also be adjusted during the life of the option if there is a new issue or a reorganisation of capital in the underlying shares.

5. Premium

The premium is the price of the option which is arrived at by the negotiation between the taker and the writer of the option. It is the only component of the five option components that is not set by ASX Clear.

Option premiums are quoted on a cents per share basis. To calculate the full premium payable for a standard size option contract, multiply the quoted premium by the number of shares per contract, usually 100.

For example, a quoted premium of 16 cents represents a total premium cost of $16.00 ($0.16 x 100) per contract. To calculate the full premium payable for an index option, you simply multiply the premium by the index multiplier. For example, a premium of 30 points, with an index multiplier of $10, represents a total premium cost of $300 per contract.

No eligibility for dividends and voting

The taker of the call option or the writer of a put option does not receive dividends on the underlying shares until the shares are transferred after exercise. Nor do they obtain any voting rights in relation to the shares until that time.

Option information is available on our website www.asx.com.au

Adjustments to option contracts

The specifications of option contracts listed on ASX's options market are standardised as much as possible.

However, ASX may make adjustments to options to preserve, as far as practicable, the value of positions in options held by takers and writers. Adjustments are made as a result of corporate events that affect the price of the underlying, such as a bonus issue, share split or rights issue.

Adjustments may be made to one or more of the components of an option, including exercise price, contract size, underlying securities, and number of contracts. With some events, ASX has adopted adjustments which are understood by the market to be conventions that will generally be applied when those circumstances arise. Specific adjustments are set out in the ASX Operating Rules.

The adjustment assumes that the corporate event giving rise to a need to make an adjustment has an ex-date or a deemed ex-date, and the event must affect the parcel of underlying securities. ASX considers that the value of the option to both the taker and the writer is best preserved over the ex-date by maintaining the total exercise value. The total exercise value is the product of three parameters:

- the quantity of option contracts
- the number of the underlying securities represented by the option contract
- the exercise price of option contracts in the series.

Corporate events that do not strictly affect shares in a pro-rata manner, that is proportionally, are generally excluded from an option adjustment. For instance, an entitlement issue of 50 shares for each shareholder, (irrespective of the number of shares held by a shareholder) is not a strictly pro-rata issue. But a bonus issue of 1 for 2 does result in an adjustment as it is a pro-rata issue of 50 new shares for each 100 old shares held.

The various adjustment circumstances and also a detailed treatment of option adjustments, titled Explanatory Guide for Option Adjustments can be found on the ASX website at **www.asx.com.au/options** (in the quick links section under corporate actions).

This document covers:

- what an adjustment is
- why adjustments are made
- how adjustments are determined
- different types of adjustments
- examples of past adjustments.

Option pricing fundamentals

When considering an option it is important to understand how the premium is calculated. Option premiums change according to a range of factors including the price of the underlying share and the time left to expiry. An option premium can be separated into two parts – intrinsic value and time value. Different factors influence intrinsic and time value.

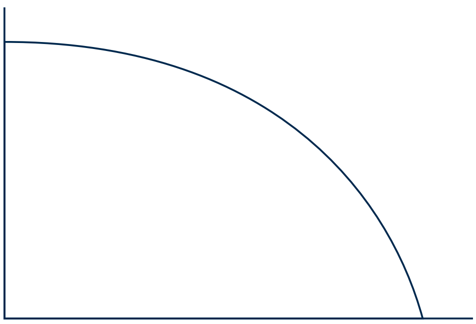
Intrinsic value

Intrinsic value is the difference between the exercise price of the option and the market price of the underlying shares at any given time. Here are some examples for call and put options.

Time value

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. Time value will vary with in-the-money, at-the-money and out-of-the-money options and is greatest for at-the-money options.

As time draws closer to expiry 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.



Time value

The amount you are willing to pay for the possibility that you could make a profit from the option transaction. It is influenced by the following factors:

- time to expiry
- volatility
- interest rates
- dividend payments
- market expectations.

Call options

For example, if BHP Limited (BHP) June $30.00 call options are trading at a premium of $1.50 and BHP shares are trading at $31.00 per share, the option has $1.00 intrinsic value. This is because the option taker has the right to buy the shares for $30.00 which is $1.00 lower than the market price. Options that have intrinsic value are said to be '**in-the-money**'.

BHP SHARE PRICE	OPTION PREMIUM		INTRINSIC VALUE (Share price - Excercise Price)		TIME VALUE (Option Premium - Intrinsic Value)
$31.00	$1.50	=	$1.00	+	$0.50

CALL OPTION EXERCISE PRICE $30.00

In this example, the remaining 50 cents of the premium is time value.

However, if the shares were trading at $29.00 there would be no intrinsic value because the $30.00 call option contract would only enable the taker to buy the shares for $30.00 per share which is $1.00 higher than the market price. When the share price is less than the exercise price of the call option, the option is said to be '**out-of-the-money**'.

Remember, call options convey to the taker the right but not the obligation to buy the underlying shares. If the share price is below the exercise price it is better to buy the shares on the sharemarket and let the option lapse.

Put options

Put options work the opposite way to calls. If the exercise price is greater than the market price of the share the put option is in-the-money and has intrinsic value. Exercising the in-the-money put option allows the taker to sell the shares for a higher price than the current market price.

For example, a BHP July $31.00 put option allows the holder to sell BHP shares for $31.00 when the current market price for BHP is $30.00. The option has a premium of $1.20 which is made up of $1.00 of intrinsic value and 20 cents time value.

A put option is out-of-the-money when the share price is above the exercise price, as a taker will not exercise the put to sell the shares below the current share price.

BHP SHARE PRICE	OPTION PREMIUM		INTRINSIC VALUE (Share price - Excercise Price)		TIME VALUE (Option Premium - Intrinsic Value)
$30.00	$1.20	=	$1.00	+	$0.20

PUT OPTION EXERCISE PRICE: $31.00

Once again, remember put options convey the right but not the obligation to sell the underlying shares. If the share price is above the exercise price it is better to sell the shares on the share market and let the option lapse.

When the share price equals the exercise price, the call and the put options are said to be 'at-the-money'.

The role of dividends in pricing and early exercise

When a share goes "ex-dividend" its price usually falls by the amount of the dividend. As option contracts do not carry any right to dividends paid on the underlying shares it follows that option prices, both puts and calls need to take account of any dividend likely to be paid during the life of the option. Although companies usually follow a pattern as to the timing and the amount, these can change.

Options investors need to make an assessment of when and how much a dividend is likely to be and factor this into their assessment of the fair value of any particular option series. The ASX theoretical options price calculator can assist with this task.

Dividend payments can also influence the likelihood of an option being exercised early. ASX also has a calculator to assist with assessing this likelihood.

The key factors which affect the time value of an option are:

- **Time to expiry** – The longer the time to expiry, the greater the time value of the option.
- **Volatility** – In general, the more volatile the price of the underlying share or index, the higher the premium will be. This is due to the wider range over which the stock can potentially move.
- **Interest rates** – A rise in interest rates will push call option premiums up and put option premiums down.
- **Dividend payments** – If a dividend is payable during the life of an option, the premium of a call option will be lower, and the premium of a put option higher, than if no dividend was payable. Holders of option contracts who do not own the underlying securities are not eligible for dividends payable on those shares.
- **Market expectations** – Ultimately supply and demand determine the market value of all options. During times of strong demand, premiums will be higher.

Parties to an option contract

The option taker

An option taker is an investor or trader anticipating a significant move in a particular share price. Taking an option offers the opportunity to earn a leveraged profit with a known and limited risk.

Taking a call option gives you the right to buy the shares covered by the option at the exercise price at any time until expiry. In general, call option premiums rise as the underlying share price rises. For this reason the taker of a call option expects the underlying share price will rise.

Taking a put option gives you the right, but not the obligation, to sell the underlying shares. Put option premiums usually rise as the underlying share price falls. For this reason the taker of a put option expects the underlying share price to fall.

In taking this right to buy or sell shares, the taker pays the premium. This premium represents the maximum possible loss on the option for the taker.

It is important to remember that it is not necessary for the taker of a put option to own the underlying shares at the time of taking the put. Certainly, if the taker chooses to exercise the put option they will be required to deliver the underlying shares, at the exercise price, to a randomly selected writer of put options in that series. However, the taker also has the choice of closing out the position on ASX's options market prior to expiry. A full explanation of closing out can be found on page 17.

If the taker chooses to close out the option, a loss will be incurred if the premium that the investor receives on closing out is lower than the premium paid by the investor for the original taken contract. A profit will occur if the reverse is true. Any time value in the premium for the option will be lost if the option is exercised.

On average 15% of options are exercised. However this does not mean 85% expire or worthless. Instead 60% of options are closed out whilst 25% expire worthless. These figures represent the average over recent times and may vary depending on current volatility and other features.

Assume AMP Limited (AMP) shares are trading at $5.75. Anticipating an increase in the share price, you take a 3 month AMP $5.75 call for 45 cents, or $45 total premium ($0.45 x 100 shares per contract).

Close to the expiry day, AMP shares are trading at $6.75 and the option premium is now $1.02 per share. You could exercise the option and buy 100 AMP shares at $5.75, which is $1.00 below the current market price, realising a gain of 55 cents per share: $1.00 – $0.45 = $0.55 (excluding brokerage and exchange fees).

Alternatively you can close out the call on ASX's option market by completing an equal and opposite transaction to your opening transaction. In this example you would write an AMP August $5.75 call for $1.02 (the current premium) and realise a gain of 57 cents per share (excluding brokerage and exchange fees).

The 2 cent profit difference between exercising and closing out the call is due to the option having some remaining time value (as explained on page 10).

If AMP shares had declined over this period, the call premium would have also declined. Depending on the timing and magnitude of the share price decline, the option may have retained some value prior to expiry, allowing you to recoup a portion of the original premium by liquidating the position. The first table on the following page summarises the two alternatives.

EXERCISE vs CLOSEOUT

CURRENT HOLDING: ONE $5.75 AMP CALL
AMP SHARES TRADING AT $6.75

EXERCISE	CLOSEOUT
Exercise option / buy 100 AMP shares for $5.75*	Closeout / sell ONE AMP $5.75 call for $1.02**
Sell 100 AMP shares at market price of $6.75*	
Total profit $6.75 - $5.75 = $1.00 per share ($100)	Less initial cost $1.02 - $0.45 = $0.57 cents profit per share ($57)
Less initial cost $1.00 - $0.45 = $0.55 cents profit per share ($55)	

* Fees and Commission are payable on each of these steps
** Fees and Commission are paid on the sale of the option to close

Put buying example

Say AMP Limited (AMP) shares are trading at $6.48. Anticipating a fall in the share price, you take a 3 month AMP $6.25 put option for 15 cents per share.

Close to the expiry day, AMP shares are trading at $5.00 and the option premium is now $1.30 per share.

You could exercise the option and sell 100 AMP shares at $6.25 which is $1.25 above the current market price, realising a gain of $1.10 per share (excluding brokerage and exchange fees). If you don't own the shares you would need to purchase these before exercising the put option. Alternatively, you could close out the option by selling the 3 month AMP $6.25 put at $1.30 (the current market premium) and realise a gain of $1.15 per share (excluding brokerage and exchange fees). The 5 cent difference represents time value remaining in the option premium. If AMP shares had risen in price over this period, the option premium would have declined. As with the call option, the put option may have retained some value and you may have been able to close out the option to recover some of the initial premium. The second table summarises the two alternatives.

EXERCISE vs CLOSEOUT

CURRENT HOLDING: ONE $6.25 AMP PUT
AMP SHARES TRADING AT $5.00

EXERCISE	CLOSEOUT
Before exercising option, buy AMP shares at market price of $5.00*	Close out / sell ONE AMP $6.25 put for $1.30**
Exercise put and sell 100 AMP shares for $5.25* Total profit $6.25- $5.00 = $1.25 per share ($125)	Less initial cost $1.30 - $0.15 = $1.15 profit per share ($115)
Total profit $6.75 - $5.75 = $1.00 per share ($100)	Less initial cost $1.02 - $0.45 = $0.57 cents profit per share ($57)
Less initial cost $1.25 - $0.15 = $1.10 profit per share ($110)	

* Fees and commission are payable on each of these steps
** Fees and commission are paid on the sale of the option to close

The option writer

Option writers earn premium for selling options. Both put and call option writers are generally looking for prices to remain steady.

Call writing example

Suppose you own 100 Australia and New Zealand Banking Group (ANZ) shares and write one ANZ June $33.00 call option. If you are exercised against, you must sell 100 ANZ shares for $33.00 per share. If you do not already own ANZ shares you will be obliged to buy 100 ANZ shares at the current market price. Writing uncovered call options therefore exposes the writer to substantial risk and should not be undertaken lightly.

Put writing example

The writer of a Computershare Limited (CPU) November $11.50 put option is obliged to buy 100 CPU shares at $11.50 as long as the position remains open. If CPU shares fall to $10.50 and the taker of the put option exercises the option, the writer is obliged to buy the shares at $11.50. On the other hand if the CPU shares rise to $12.00 it is unlikely that the taker of the put option will exercise and accordingly, the put writer will earn the option premium.

As the example shows, the writer of a put option has risk if the share price falls. In extreme cases the risk is that the price of the shares falls to zero.

The decision to exercise the option rests entirely with the option taker. An option writer may be exercised against at any time prior to expiry when trading an American style option. However, this is most likely to occur when the option is in-the-money and close to expiry, or when the underlying share is about to pay a dividend. Call option takers may exercise in order to receive the dividend. ASX Clear will require payment of margins to ensure the obligations of the option writer to the market are met unless the underlying stock is held as collateral.

Tracking positions and costs

When deciding whether to trade options, there a number of factors to be aware of:

- the costs of trading options
- how to track the value of your options or option positions
- the requirement to pay margins when selling options.

How to track options via the internet and in the newspapers

Option codes and prices are available (on a 20 minute delayed basis) in the options section of the ASX website. To access this go to **www.asx.com.au/options**. The ASX website also has pricing and other information about the underlying securities or indices. Current option prices are also available from your broker.

Costs

Brokerage is payable at a flat rate or as a percentage based on the full premium. ASX Clear charges a fee per contract, and also an exercise fee, if you exercise an option. For more information contact your broker.

Margins

Margins are designed to protect the financial security of the market. If you write an option contract, you have a potential obligation to the market because the taker of the option may exercise their position. A margin is an amount that is calculated by ASX Clear as necessary to ensure that you can meet that obligation on that trading day.

Note that ASX Clear's relationship is with your broker, and not directly with you. Once an option trade is registered with ASX Clear, the process of novation results in ASX Clear becoming the counterparty to both the buying and the selling broker. ASX Clear calls margins from your broker, who then calls margins from you.

References to margins and collateral in this document reflect the practices of ASX Clear in risk margining ASX Clearing Participants. It is important to note that individual clients may be risk managed differently by their ASX Clearing Participant or broker with respect to (for example) the type and quantity of margin applied, the type of collateral accepted and the interest paid on cash collateral. Individuals should contact their broker to establish their practices.

How margins are calculated

ASX Clear calculates margins using the CME SPAN® margining calculation engine.

The total margin for ETOs is made up of two components:

1. **The premium margin** margin is the market value of the particular position at the close of business each day. It represents the amount that would be required to close out your option position.
2. **The initial margin** covers the potential change in the price of the option contract assuming the assessed maximum probable inter-day movement in the price of the underlying security. To calculate the Initial Margin, CME SPAN 4.0 uses the published price scan range (also referred to as the margin interval). The price scan range is determined through various observations of the price (or underlying price) over a period of time.

If you have a number of option positions open, the margin calculation engine will evaluate the risk associated with your entire options portfolio and calculate your total margin obligation accordingly. It is possible that some option positions may offset others, leading to a reduction in your overall obligation.

The ASX website has a comprehensive brochure on margins and how they are calculated. The "Margins" brochure can be found in the "Documents and Publications" section.

How margins are met

Your broker will require you to provide cash or collateral to cover your margin obligations. Note that minimum margin requirements are set by ASX Clear, but higher margin requirements may be imposed by brokers.

There is a range of collateral that is acceptable to ASX Clear. This includes certain shares and bank guarantees. ASX Clear applies a "haircut" in relation to the value of some collateral to protect against a sudden fall in the value of collateral held.

Details of eligible collateral are published on the ASX website at **www.asx.com.au/services/clearing.htm** under the acceptable collateral section.

Payment of margins

Margins are recalculated on a daily basis to ensure an adequate level of margin cover is maintained. This means that you may have to pay more if the market moves against you. If the market moves in your favour, margins may fall.

Settlement requirements for trading options are strict. You must pay margin calls by the time stated in your Client Agreement. This is usually within 24 hours of being advised of the margin call by your broker. If you do not pay in time, your broker can take action to close out your positions without further reference to you.

Taxation

It is beyond the scope of this booklet to provide a detailed treatment of the taxation issues that are relevant to trading or investing in options. You should, however, take taxation into consideration when you are investing in options, just as you would when investing in shares.

Some of the issues that may be relevant include:

- Are you classified as a trader, as a speculator or as a hedger?
- Is an option trade on revenue account or on capital account?
- Are there timing issues, for example when an option is opened in one tax year and closed in the next tax year?
- Where an option strategy is in place around the time a stock goes ex-dividend, are you in danger of not satisfying the 45-day Holding Period Rule and therefore being disqualified from receiving the franking credits attached to the dividend?
- Could the exercise of an option position crystallise a taxation event for the underlying shareholding?

This is by no means a comprehensive list of the taxation issues of options trading. The information contained in this booklet is provided for educational purposes only and does not constitute investment, taxation or financial product advice. Taxation issues will vary from investor to investor. It is therefore important to discuss your taxation situation with your financial adviser or accountant, to ensure that any options trades you enter will not have adverse taxation implications.

For a paper discussing the taxation treatment of options, please refer to the ASX website, at **www.asx.com.au/options** (under the related information section section).

This document covers aspects of options trading such as:

- classification of the options trader as a trader, speculator, hedger or investor
- the treatment of realisation of profits or losses from options trading
- the use of options in superannuation funds
- franking credits – Holding Period Rule and Related Payments Rule.

Tradeability

As explained previously, an option is a contract between two parties – the taker and the writer. An option contract comes into existence when a writer and a taker agree on the option price and the contract is registered with ASX Clear. The establishment of a contract is referred to as an open position.

Once the taker has an open position they have three alternatives:

1. The taker can close out their position by writing an option in the same series as originally taken and instructing their broker to 'close out' the position.

   For example, if you take a call option as an opening transaction, you may liquidate or close out your right to exercise by writing an identical call option to another party.

2. The taker can exercise the option and trade the underlying shares. In the case of index options it is impractical to take delivery of the many shares contained in the index, so index options are only exercisable at expiry into a cash payment. Index options are further explained on page 20.

3. The taker can hold the option to expiry and allow it to lapse.

It is important to note that once the taker exercises an option it is too late for the writer of that option to close out their position.

The writer of an option has two alternatives:

1. Close out the option prior to the expiry. For example, if you write a put option as an opening transaction, you may liquidate or close out your obligations by taking an identical put option contract with another party; or

2. Let the option go to the expiry day. The option will either be exercised against or expire worthless.

You would close out:

- to take a profit
- to limit a loss
- when there is a risk of unwanted early exercise.*

With options, there is no transfer of rights or obligations between parties.

* Note that with index options, exercise can only occur on the expiry day, so this risk does not exist for index options.

How can options work for you?

There are a number of different reasons why investors trade in options. Some of these are outlined below.

1. Earn income

Writing options against shares you already own or are purchasing can be one of the simplest and most rewarding strategies. Below are two scenarios when this strategy may be appropriate. In each of these scenarios, your risk is that you will have to sell your shares at the exercise price but you still keep the option premium. This is most likely to happen if the market rises strongly.

Scenario 1: Writing options against shares you already own

Assume you own 100 Wesfarmers Limited (WES) shares. The current price is $44.00 and you would be happy to sell your shares if the price reached $46.50. You look in the newspaper and see a one month WES call option is worth around 70 cents. You call your broker and instruct them to sell a one month WES $46.50 call option which they do for 72 cents ($72 less brokerage and exchange fees). You now have the obligation to sell your WES shares for $46.50 any time between now and expiry. For undertaking this obligation you received $72 (less brokerage and exchange fees). Calls can also be written against stock bought on margin. Find out more from your margin lender, broker or ASX.

Scenario 2: Writing options at the same time as buying the shares

Assume you are interested in purchasing 100 WES shares but would like to reduce the cost of doing so. You could establish a buy and write over WES shares. This means you would buy 100 WES shares at around $44.00 and at the same time sell a one month WES $46.50 call for say 72 cents. The extra income of $72 (less brokerage and exchange fees) reduces the cost of buying the shares. You now have the obligation to sell your WES shares for $46.50 at any time between now and expiry.

* Please note: you will have to pay margins for the difference between the options settling and subsequent stock settlement (options settle T+1 vs stock T+2).

2. Protecting the value of your shares

This strategy can be useful if you are a shareholder in a particular company and are concerned about a short term fall in the value of the shares. Without using options you can either watch the value of your shares fall, or you could sell them.

Scenario 1: Writing call options to give you downside protection

Previous examples show how you can generate extra income from your shares by writing options. Writing call options can also generate extra income to offset a decline in share price.

If WES is trading at $44.00, writing a one month $42.00 call option for $2.50 means the shares could fall by $2.50 before you begin to incur a loss. If the share price falls to $41.50 the loss on WES shares is offset by the $2.50 option premium. If WES falls further, the $2.50 premium will not be enough to fully offset the fall in price.

If WES closes above $42.00 at expiry, the option will be exercised unless the option has been closed out.

Scenario 2: Take put options

Assume you own 100 WES shares and you think the price will fall. Writing call options will offset some of the loss, but you would like to be able to lock in a sale price for your shares if the market does fall. You could take 1 WES June $44.00 put option for 90 cents ($90 plus brokerage and exchange fees). If the price falls, you have until the end of June to exercise your put option and sell your shares for $44.00. If you are wrong and the market rises you could let the option lapse or alternatively close out before the expiry day.

3. Capitalising on share price movements without having to purchase shares

You can profit from a movement, either up or down, in the underlying shares without having to trade the underlying shares themselves. Some examples are outlined below.

Scenario 1: Take calls when expecting the market to rise

Buying call options allows you to profit from an increase in the price of the underlying shares. Suppose you believe Computershare Limited (CPU) shares will rise in price over the next few months. You don't want to pay the full $900 to buy 100 shares so you decide to buy a 3 month $11.50 call for 40 cents ($40 plus brokerage and exchange fees). If you are correct and the price of CPU shares rises then the value of your option will also rise. You can then sell an equivalent call option to close out any time prior to the expiry date and take your profit. You will not have to buy the CPU shares if you don't want to.

If the market doesn't move as expected, you can either close out the option and recoup some of your initial investment, or you can simply let the option expire worthless. When you take a call option, the most you can lose is the premium you have paid in the first place.

Scenario 2: Take puts when expecting the market to fall

Assume you believe CPU shares will fall in value. You don't like the idea of short selling the shares as you believe this is too risky so you decide to buy a 3 month CPU $11.00 put option for 60 cents ($60 plus brokerage and exchange fees). If you are correct and the price of CPU falls, the value of your put should rise. You can then sell the put to close out any time up to and including the expiry. If the market does not fall, then you can close out the option and recoup some of your initial investment, or you can simply let the option expire worthless.

When you take a put option you don't have to own the underlying shares and, as with call options, the most you can lose is the premium you have paid in the first place.

4. Using options gives you time to decide

Taking a call option can give you time to decide if you want to buy the shares. You pay the premium which is only a fraction of the price of the underlying shares. The option then locks in a buying price for the shares if you decide to exercise. You then have until the expiry day of the option to decide if you want to buy the underlying shares.

Put options can work in a similar manner. By taking a put option you can lock in a selling price for shares that you already own and then wait until the expiry day of the option to see if it is worthwhile exercising the option and selling your shares. Or you can let the option lapse if the price does not fall as expected.

In both cases the most you can lose is the premium you have paid for the option in the first place (plus brokerage and exchange fees).

5. Index options let you trade all the stocks in an index with just one trade

By using call and put options over an index, you can trade a view on the general direction of the market, or hedge a portfolio with just one trade. If you are bullish on the market but don't know what stock to buy or which sector of the market will rise, you can buy a call option over the whole index. This means you don't have to choose a particular stock to invest in, you can just take a view on the direction of the broad stockmarket. If the level of the index rises the value of the call options will rise, just as for call options over individual shares. All the concepts about call and put options explained in this booklet apply to index options, which are explained in detail on page 20.

6. Other strategies

Writing covered calls on stock bought on margin is an increasingly popular strategy. Options can allow you to construct strategies that enable you to take advantage of many market situations. Some can be quite complex and involve varying levels of risk.

Trading index options

How are index options different?

Except where specific reference has been made to index options, up to this point the options we have been discussing have been over shares in individual companies. Individual stock options enable you to trade a view on a particular company. ASX also offers options which are traded over a share price index (that is, a group of listed securities).

As the name suggests, index options give you exposure to a sharemarket index. They offer similar benefits and flexibility to that of options traded over individual stocks, with the added advantage of offering exposure to a broad range of securities comprising an index rather than being limited to one particular company. You can use index options to trade a view on the market as a whole.

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

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

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

Settlement method

The index options settlement price is based on the opening price on ASX Trade of each stock in the underlying index on the morning of the expiry date. It is not based on the closing index level. As the stocks in the index open, the first trading price of each stock is recorded. Once all stocks in the index have opened, an index calculation is made using these opening prices. This process is called the Opening Price Index Calculation (OPIC). Shortly afterwards the OPIC is confirmed to ASX and ASX Clear, it is announced to the market. The OPIC is then posted onto the ASX website at **www.asx.com.au/options**.

This method of calculating the index level for settling index options is regarded as an effective way to manage potential volatility around the expiry of index options and futures contracts.

The Australian market staggers the opening of stocks, with stocks opening in five tranches, according to the initial letter of the stock name:

- A and B
- C to F
- G to M
- N to R
- S to Z.

The staggered opening means it is not possible for the entire market to be traded in one 'hit' during the opening period. The unwinding of large positions to match the index option expiry can be done in a more orderly fashion. Furthermore, market opening is typically a time of higher liquidity, and therefore the time the market is better able to absorb orders placed by traders looking to unwind index arbitrage strategies.

Some key advantages of trading index options

1. Exposure to the broader market

Investing in index options approximates trading a share portfolio that tracks a particular index. It provides exposure to the broader market which the index represents, with no specific company risk.

2. Greater leverage

Like options over a single company, index options can provide leveraged profit opportunities. When the market rises (or falls), percentage gains (or losses) are far greater for the option than rises (or falls) in the underlying index.

3. Protection for a share portfolio

By purchasing index put options, you can lock in the value of a share portfolio. You may fear a market downturn, but have good reasons for not wanting to sell stocks. By purchasing index put options, you can make profits if the index falls. Profits on put options should compensate you for the loss of value in the stocks in the portfolio.

For example, you hold a $55,000 share portfolio that tracks the index. Assume the index is at 5500 points and assume you buy a 3 month 5500 put option for 250 points (or $2,500 plus brokerage and exchange fees). At expiry the index has fallen to 5000 points. You exercise the options and receive a cash payment equal to the difference between 5500 points (the insured value) and the level of the index at expiry, in this case 5000 points.

In other words, you receive a cash payment of $5,000 (500 points x $10 a point) for a net profit on the option of $2,500. If your share portfolio has moved in line with the underlying index, then the profits on the put options purchase will largely offset the fall in the value of the portfolio.

DATE	INDEX	OPTION TRADE	PREMIUM VALUE
Late today	5500 points	Buy 3 month 5500 Put @ 250 points	$2,500 (PAY)
Expiry	5000 points	Exercise option, Receive 500 points x $10	$5,000 (RECEIVE)
			Profit = $2,500

Examples of how trading index options can work for you

Example 1: Using an index put option to protect a share portfolio

When you decide to buy shares in the sharemarket you are exposed to two types of risks:

1. Company risk – the risk that the specific company you have bought into will underperform.
2. Market risk – the risk that the whole market underperforms, including your shares.

There are a number of ways to protect your shares against market risk using index options. You can, for example, buy the shares you believe in and buy an index put option to protect yourself against a fall in the whole market.

Depending on the amount of risk you wish to remain exposed to, you can choose to hedge all or only part of your portfolio. Let's assume that it is June, and the broad market index is at 5500 points. You have a share portfolio worth $165,000 which approximately tracks the index. You believe that there may be a downturn in the market over the next three months. As an alternative to selling shares, you decide to buy index put options to protect your portfolio. As the 3 month 5500 index put option has a contract value of $55,000 (5500 points x $10 per point), you are able to protect your $165,000 portfolio by buying three contracts, for 250 points each. The total cost is $7,500 (ignoring brokerage and exchange fees).

The 3 month 5500 put gives you the right, but not the obligation, to "sell" the index at a level of 5500 at expiry.

At expiry, the index has fallen to 5000 points, and your options have the following value:

DATE	INDEX	SHARE PORTFOLIO	5500 PUT	PREMIUM VALUE
Today	5500 points	$165,000	250 points	3 contracts x $2,500 = $7,500 (PAY)
Expiry	5000 points	$150,000	500 points	3 contracts x $5,000 = $15,000 (RECEIVE)
Profit (Loss)		($15,000)		($15,000 - $7,500) = ($7,500)

Your net position is a loss of $7,500. The loss of $15,000 in the value of your shares has been largely offset by the profit of $7,500 on the option trade.

Alternatively, you could buy index put options with an exercise price greater than the value of the share portfolio you want to protect. This will provide you with a larger profit on the option trade if the index falls as expected. However, you will be paying a higher amount in premium, an amount which will be lost if the expected market decline does not take place.

Example 2: Using an index call option to trade a bullish view of the market

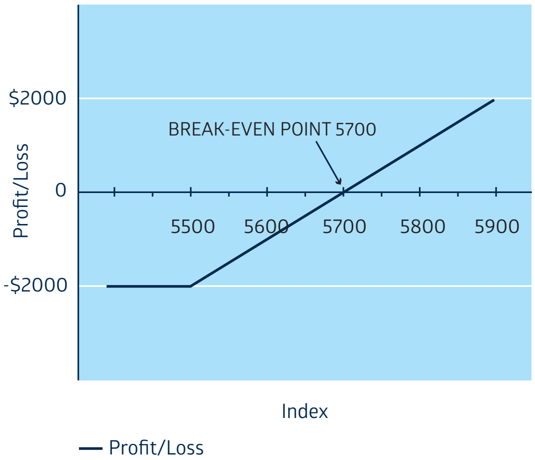
You are expecting the broad sharemarket to rise over the next 3 months. Assume the index is at 5500. As an alternative to buying a portfolio of shares directly, you decide to buy a 3 month 5500 index call option for 200 points, or $2,000 (plus brokerage and exchange fees). That gives you the right, but not the obligation, to "buy" the index at a level of 5500 at expiry. Ignoring brokerage and exchange fees, your break even point at expiry is 5500 + 200 = 5700 points.

The most you are risking in this trade is $2,000, the cost of the option. You have potentially unlimited profits. At expiry, for every point the index is above your break-even point of 5700 points, you will make a profit of $10. Two months later, it turns out that you were right in your prediction. The value has increased as shown in the table on the next page.

DATE	INDEX	4500 CALL	PREMIUM VALUE
Now	5500 points	200 points	$2,000
2 Months later	5775 (+5%)	350 points	$3,500
Profit / loss			+$1,500 (+67%)

The profit/loss profile (or pay-off diagram) for this position at expiry looks like this.
Note our example trades out of the position 1 month prior to expiry.

Index 5500 Call Option



The chart above is called a pay-off diagram.
To learn more about these, check page 24.

As you can see, the option has increased by 67% compared to a relatively small (+5%) increase in the index. This is the advantage of the leverage which an index call option provides. Since the option has not yet expired, you could also have:

1. Sold the option and realised the profit.
2. Kept the option and hoped for more upside (but remember that time decay is working against you).

These are just two of many strategies that are possible using index options. The range of expiry dates and exercise prices available makes it possible to structure a strategy to reflect any view you may have on the direction of the broader market.

Differences between equity options and index options

The table below summarises the main differences between exchange traded options over individual securities and index options.

	EXCHANGE TRADED OPTIONS	INDEX OPTIONS
Exercise style	Generally American	European
Settlement	Deliverable	Cash settled
Last trading and expiry day	The Thursday before the last Friday in the expiry month	The third Thursday of the month. ASX will also list weekly index options with the next two to three weeks available, expiry day is Thursday. However, ASX Clear has the right to change this date should the need arise.
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 multiplied by $ value

Pay-off diagrams

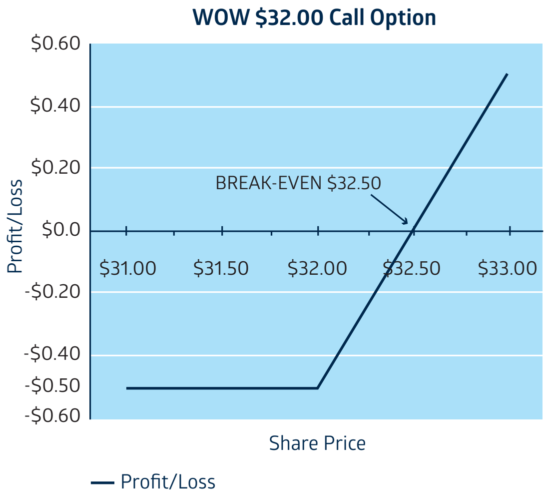
A pay-off or break-even diagram shows the potential profit or loss on the strategy at different stock prices at expiry. Pay-off diagrams can be drawn for any option or combination of options in the one class.

Visit the ASX website, **www.asx.com.au/options under** "Prices and research" select "Calculators" and use the strategy modelling tool in the options section.

Call option taker

Using the example of buying a 3 month Woolworths Ltd (WOW) $32.00 call for 50 cents.

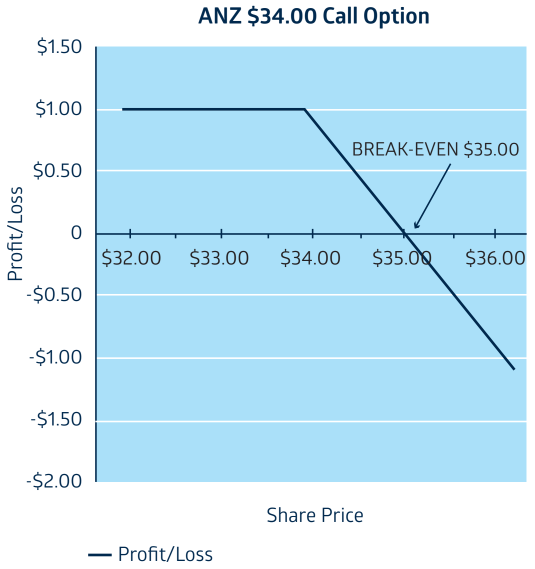
The break-even point for the call option taker is the exercise price of the option plus the premium paid. In this example it is $32.50 ($32.00 exercise price + 50 cent premium).



The diagram shows that while WOW is below $32.50 the call option taker has an unrealised loss. The most the call option taker can lose is the premium paid (50 cents). As the WOW share price rises above $32.50 the call option taker begins to profit. The maximum profit is unlimited as the higher the share price goes, the larger the taker's profit.

Call option writer

Using the example of selling a ANZ $34.00 call for $1.00.



The diagram shows that the call option writer has potential profit limited to the premium received ($100). If the option writer does not own the underlying shares the potential loss is unlimited. In this case, as the share price rises the writer will have to pay more to buy the shares at the market price if the option is exercised.

The break-even point for the call option writer is the exercise price of the option plus the premium received. This is the same as for the call option taker.

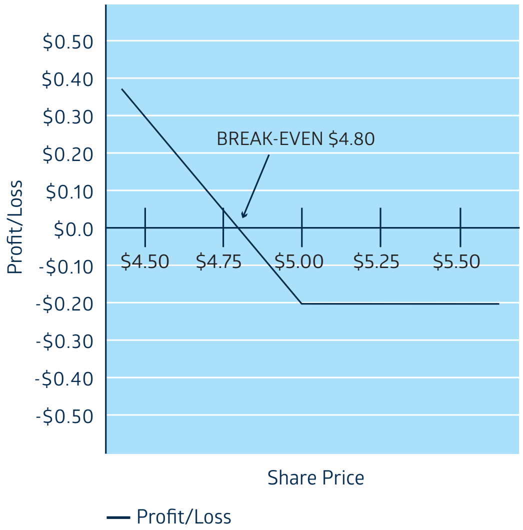
For call options the break-even point is the exercise price plus the premium.

For put options the break-even point is the exercise price less the premium.

Put option taker

Using the example of buying a 3 month BlueScope Steel Ltd (BSL) $5.00 put for 20 cents.

BSL $5.00 PUT OPTION

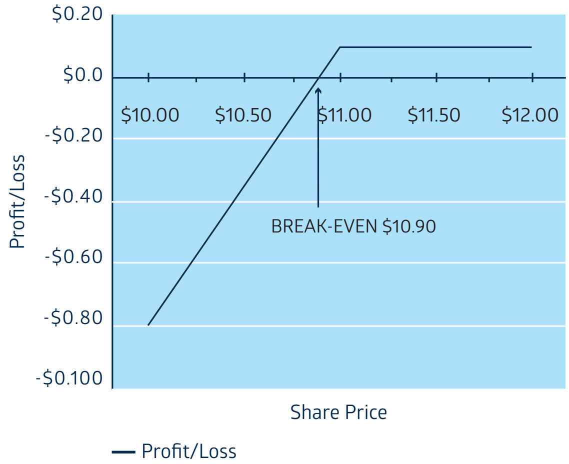


The diagram shows that the most the put option taker can lose is the premium paid. The further the share price falls below the break-even point of $4.80, the larger the investor's potential profit. The break-even point for the put option taker is the exercise price less the premium paid. The maximum profit is the exercise price less the premium paid.

Put option writer

Using the example of selling a 1 month CPU $11.00 put for 10 cents.

CPU $11.00 PUT OPTION



The diagram shows that the put option writer has profit potential limited to the premium received ($10). Once the share price falls below $11.00 the put writer's profits begin to erode. This becomes a loss after the share price falls below $10.90. The break-even price of $10.90 is the exercise price less the premium received, and the potential loss is limited only by a fall in the share price to zero.

These four pay-off diagrams are the basis for more advanced option strategies. By combining these positions, more elaborate and complex strategies can be created.

Summary

CALL OPTION TAKER	CALL OPTION WRITER
CHARACTERISTICS	**CHARACTERISTICS**
Pays premium	Receives premium
Right to exercise and buy the shares	Obligation to sell shares if exercised
Benefits from rising volatility	Benefits from time decay
Profits from price rising	Profits from price falling or remaining neutral
Limited losses, potentially unlimited gain	Potentially unlimited losses, limited gain
Can SELL before expiry to close out	Can buy back before expiry or before assignment to close out
Put Option Taker	**Put Option Writer**
CHARACTERISTICS	**CHARACTERISTICS**
Pays premium	Receives premium
Right to exercise and sell shares	Obligation to buy shares if exercised
Benefits from rising volatility	Benefits from time decay
Profits from price falling	Profits from price rising or remaining neutral
Limited losses, gain is only limited to the share price falling to zero	Losses only limited to the share price falling to zero, limited gain
Can SELL before expiry to close out	Can buy back before expiry or before to close out assignment

In this booklet we discuss, in general terms, the risks associated with particular option strategies. It should be remembered that the risk associated with a particular strategy can change over time and in light of market circumstances. Furthermore if you vary the strategy, for example by adding or removing options from your initial position, this can have a dramatic impact on the risk profile of the total position. It could increase your risk, or reduce it. You should give serious consideration to these matters before varying your strategy, and also seek the advice of your broker.

Risks of options trading

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.

Market risks

The market value of options is affected by a range of factors (see the section 'Option pricing fundamentals'). 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 shares 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 your being able to obtain a quote from a Market Maker. The scope of the obligation of Market Makers is described on page 31.

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

ASX and ASX Clear have broad powers under the ASX Operating Rules to take action 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 Operating 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.

You and your broker

This information relates to the relationship between you and your broker (or as they are called, ASX Market Participant) when trading and settling exchange traded options.

1. Your relationship with your broker

Brokers offer both trading and clearing services or they can specialise, with some parts of the trading and settlement process contracted to other brokers.

The different services a broker may offer in trading and settling options are as follows:

- Offer both trading and clearing services.
- Offer only trading services. If so, the broker will execute transactions but will not provide clearing services.
- Offer only clearing services. If so, the broker will settle transactions but will not offer trading services.
- Offer purely advisory services. If so, the broker will not offer clearing or trading services but will only provide advice to clients. They will use another broker to perform these functions.

2. The paperwork: Client Agreement forms

If you are trading through a broker (which offers both trading and clearing services) you will only have to sign one Client Agreement form with that broker. If the broker does not offer both trading and clearing services then you may have to sign more than one Agreement.

A trading broker (which is not also a clearing broker) uses a clearing broker to clear its option trades. You don't have to use the trading broker's clearing broker.

The Client Agreement is a legal contract setting out the terms on which the broker(s) will act for you.

If you use an advice or execution only broker, you must still sign a Client Agreement with a trading broker and a clearing broker.

It is important that you read the Client Agreement carefully before signing it, and retain a copy of the agreement.

ASX does not prescribe a set Client Agreement, however the ASX Operating Rules and ASIC Market Integrity Rules specify minimum terms which the Client Agreement must contain. Brokers may have other terms provided they are not inconsistent with the minimum terms.

The involvement of ASX Clear Pty Limited (ASX Clear)

It is important to understand that options registered with ASX Clear are contracts between clearing brokers and ASX Clear (on a principal to principal basis). ASX Clear does not have any contractual relationship with you.

More about the role of ASX Clear is detailed below.

Fees and commissions

ASX does not prescribe the rate of brokerage which brokers may charge. Clients should discuss these rates and how they will be administered directly with their broker(s) prior to signing the Client Agreement(s). ASX and ASX Clear have standard fees (e.g. for trading and exercise), which can be checked by calling ASX or your broker, or referring to **www.asx.com.au/options** (under Costs in the "Trading Information" section).

Confirmations (previously called contract notes) and monthly reports

The trading broker is under a legal obligation to provide you with a confirmation. In practice, the trading broker may arrange for the clearing broker to provide a confirmation to you on behalf of the trading broker. A confirmation must contain information about the trade and the client including (but not limited to):

- the client's details
- the option series traded
- the trade details
- brokerage and fees
- which broker traded
- which broker cleared the trade (if the trading broker is not also the clearer).

You should ensure the details contained in each confirmation are correct and immediately discuss any inaccuracies with your broker.

At the end of each month if you have open positions you will receive a statement listing your positions. Again, it is important that you carefully check these documents and immediately raise any inaccuracies with your broker.

Failing to pay your broker

If you fail to pay your broker, they may have the right to close out contracts opened for you.

Accordingly, it is important that you understand the settlement and margin requirements set out in the Client Agreement(s) before commencing trading.

3. Instructing a broker to trade options

Your investment objectives

Trading brokers are required to understand their client's financial situation in order to assess whether a particular investment (such as options) is suitable for that particular client's situation. The trading broker's adviser will ask you certain questions relating to your financial position and your investment objectives when dealing with you for the first time. The adviser will rely on the information you provide when advising you.

Accredited Derivatives Advisers

You can place an order through any adviser, however under the ASIC Market Integrity Rules, only those individuals who are Accredited Derivatives Advisers can advise retail investors about what orders to place.

What does "Opening" and "Closing" a transaction mean?

When you first buy (or sell) options it is called an opening transaction. If you then sell (or buy) options to cancel existing bought (or sold) open positions, it is called a closing transaction.

For example, if you have just opened an account with ABC Stockbroking Limited and instruct ABC Stockbroking to sell 10 one month Newcrest Mining Limited (NCM) calls with a strike price of $14.00, this is called an opening transaction. If, after one week, you decide you do not wish to remain exposed to having to sell 1,000 NCM underlying shares, you would instruct ABC Stockbroking to buy the 10 NCM one month $14.00 call options as a closing transaction.

It is important that you tell your broker whether you are entering into an options transaction to open or to close.

Once the transaction has been registered, and is entered to close, the initial open contract is cancelled and you have no further rights or obligations arising from these NCM call option contracts (on either the buy or sell sides).

If receiving investment or trading advice about options, you should check with your adviser to ensure they are accredited.

Exercising options

If you wish to exercise rather than close out taken (bought) open contracts you will need to notify your broker of exactly which option contract(s) you want to exercise. The broker will advise you of the latest time it will accept an instruction to exercise contracts in order for them to be exercised that day (T).

Where an exercise instruction is given, ASX Clear will randomly select a writer (seller) in that series of options and on the following day will notify that writer that their written (sold) position has been exercised (i.e. T+1).

Settlement of underlying securities on exercise

Payment for, and the delivery of, underlying securities, on exercise of an open contract are undertaken by the clearing broker. The clearing broker has the legal obligation to provide the confirmation for the settlement of the underlying securities following an exercise. The securities transaction resulting from exercise of an option takes place two business days after exercise (T+2).

Cash or collateral to cover margins

The broker's dealings with ASX Clear are as principal. In other words, ASX Clear's relationship is with the buying and selling broker of an option contract, and not with the end buyer and seller of the contract. The broker is liable for meeting payment, settlement and margin obligations to ASX Clear.

Brokers require option investors to provide money or property to enable the broker to manage the risks associated with the client's dealings in options. Client money and property must be dealt with in accordance with the Corporations Act, the ASIC Market Integrity Rules, the ASX Clear Operating Rules and the Client Agreement.

The broker is generally obliged to hold money on trust, but this does not include money paid to reimburse the broker for payments it has made to ASX Clear in respect of dealings for the client.

The broker may lodge CHESS securities held in the client's name with ASX Clear as collateral for margin obligations relating to options trades for the client. Where this occurs, the securities are held by ASX Clear as a "third party security". ASX Clear is not entitled to use the security to cover the broker's obligations to ASX Clear relating to dealings for other clients or the broker's own dealing. Margining is discussed in more detail on page 15.

4. Role of Market Makers

Market Makers play an important role in the ASX options market. Market Makers compete against one another while trading on their own accounts and at their own risk. Under contractual arrangements with ASX, they are incentivised to achieve benchmark quoting requirements.

The quoting requirements aim to ensure liquidity in the market, so that traders are more readily able to trade into and out of an options position. This also makes it easier to price and value options positions.

Liquidity is assisted when there are multiple Market Makers covering each stock. ETO Market Makers are contracted into one or more Classes (representing each underlying security) in which they must meet ASX's volume and spread requirements with maturities going out one year. This involves quoting buy and sell prices for a certain number of series, and/or responding to quote requests from other Market Participants for prices.

Description of Quoting Requirements for Market Makers

For each option Class in which a Market Maker is responsible there are three quoting benchmark requirements. Market Makers are judged on their performance in making markets in certain series on a Continuous Basis and on making markets in response to Quote Requests in certain series. These benchmarks are measured during the ASX options market trading hours over a calendar month.

1. Minimum of 50% of the required Continuous Quoting benchmark;
2. Minimum of 50% of the required Quote Request Quoting benchmark; and
3. A combined minimum average of 70% on Continuous Quoting and Quote Request Quoting

In practical terms this means that, for example, if a Market Maker meets the Quote Request benchmark 61% and the Continuous Quoting benchmark 83% of the time that the options market is trading (calculated over a calendar month) that is a pass. But if a Market Maker meets the Quote Request benchmark 49% of the time and the Continuous Quote benchmark 99% of the time, this would be a fail.

Continuous Quoting Benchmark

The Market Maker is required to provide continuous orders in eighteen series encompassing three calls and three puts in three of the next six expiration months. Each order must be for at least the minimum quantity, and at or within the designated maximum spread requirements.

Quote Request Quoting Benchmark

The Market Maker is required to provide orders on request for all series with up to twelve months expiration in the minimum quantity and at or within the maximum spread.

Minimum Contracts

Each security (Class) over which exchange traded options are traded has been allocated to a category designated by ASX. ASX has four different Class categories. A security is placed in a category by reference to the liquidity of such security. Category 1 stocks are the most highly liquid, Category 3 stocks are the least liquid and Category 4 is for Index options. The category of the security determines the minimum number of contracts for which the Market Maker must quote a price.

Full details of current ASX options market making requirements including benchmarks for incentives are also published on the ASX website **www.asx.com.au/documents/products/ASX_ETO_MM_Fact_Sheet.pdf**

Quoting Requirement Notes

Investors in ASX ETOs should be aware of the following;

- Market Maker monitoring (as to the Market Maker's quoting performance against the benchmark requirements) is calculated over the course of a calendar month not daily.
- Market Maker monitoring (as to the Market Maker's performance against the benchmark requirements) times are: 10.20am – 4.00pm for single stock options; and 10.00am – 4.30pm for index options.
- Market Makers are not required to quote option series with a maturity beyond 12 months, although they may respond to quote requests in these series.
- Regarding single stock option Classes (e.g. BHP & TLS), Market Makers are not required to quote into European style series. They are only required to quote into American style series.
- Market Makers are not required to provide quotes in all series, or at all times, and as such there can be no guarantee that all series will have prices displayed. The ability of Market Makers to provide quotes can be impacted at times by a variety of factors including, company announcements, company corporate actions, liquidity in the underlying and its options, price volatility in the underlying and its options and trading system limitations. While these events may occur infrequently traders and investors should have a contingency plan to deal with an absence of quotes.

5. ASX Clear Pty Limited (ASX Clear)

ASX Clear is a wholly owned subsidiary of ASX. It undertakes the registration and clearing of all options traded on ASX's options market. The points below are some of the key aspects of ASX Clear.

Novation

Through a process called "novation" ASX Clear becomes the counter-party to both the buying and selling brokers of an option contract. That is, ASX Clear becomes the buyer for each sold option and the seller for each bought option. For example: ABC Stockbroking places an order to sell 10 one month ANZ $34.00 call options and XYZ Stockbroking agrees to buy them. On registration of the trade with ASX Clear the original buy and sell trade (called a market contract) is "novated" and replaced by two new contracts (called open contracts) whereby ASX Clear becomes the counterparty buyer against the selling broker and correspondingly, becomes the counterparty seller against the buying broker. This means that the buying and the selling brokers only deal with ASX Clear in the settlement of the open contract and neither broker has to rely on the other to perform under the original market contract.

Adjustments to options series

In certain circumstances where the capital structure or value of the underlying securities over which options exist is changed, ASX may make adjustments to the contract specifications of a class of options.

Adjustments are discussed on page 8 of this booklet.

Position and exercise limits

ASX reserves the right to limit the number of options in a series or class which may be registered with ASX Clear and may also restrict the exercise of open contracts in a class. Both of these limits may be applied in relation to one or more accounts or accounts generally.

National Guarantee Fund

In certain circumstances you may have a claim against the National Guarantee Fund (NGF). The NGF is administered by the Securities Exchanges Guarantee Corporation Limited and is governed by the Corporations Act and Regulations. The NGF provides you with some protection in the specific circumstances set out in the legislation:

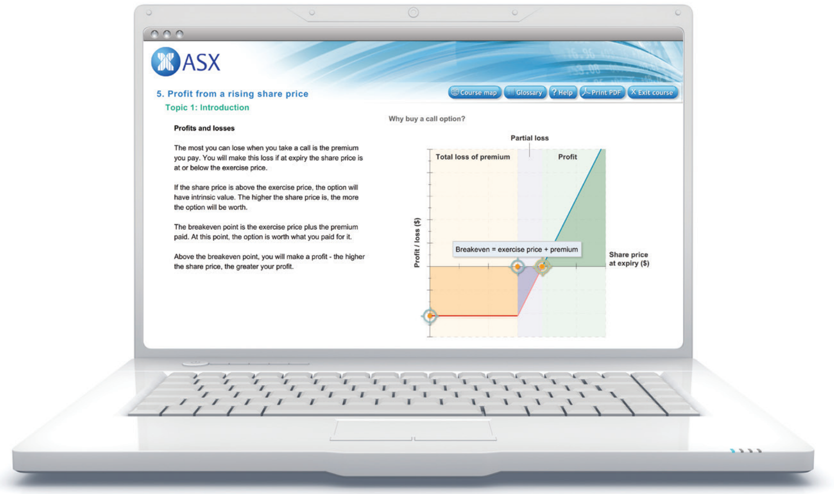
1. if a stock option is exercised, the NGF may provide compensation in certain circumstances if the resulting trades are not completed; and
2. if you have entrusted property to your broker in the course of dealing in options, and the broker later becomes insolvent, you may claim on the NGF for any property which has not been returned to you or which has otherwise not been dealt with in accordance with the broker's obligations.

Further information on these potential NGF protections can be found at **www.segc.com.au**

Options online courses

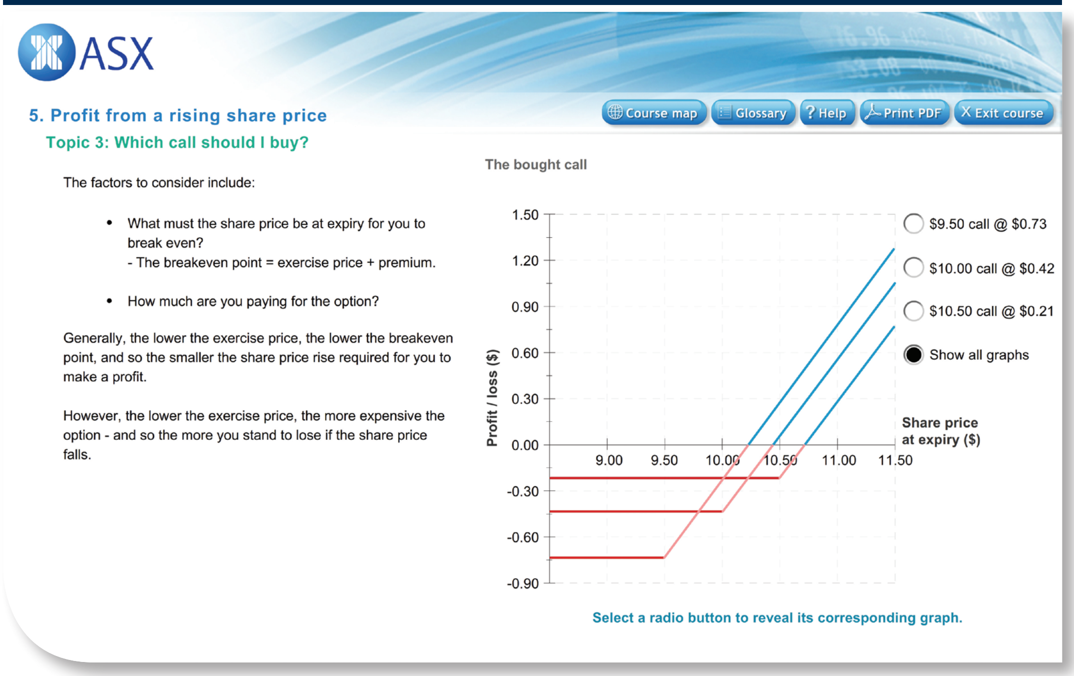
Comprehensive free online options courses

ASX offers a very comprehensive series of online courses on options. Learn the basics of what an option is. Understand the strategies that options can be used for including - earning income and protecting a portfolio. The courses are interactive with diagrams, activities and plenty of quizzes to practice your understanding.



You can access these options online courses any time.
Visit **www.asx.com.au/education**

Our online courses help you to understand the ins and outs of options

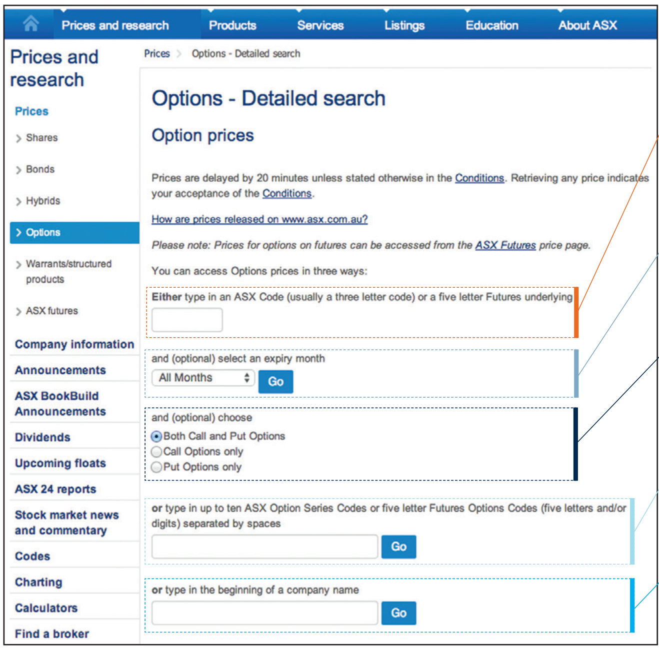


Option prices

List of options and their prices

The ASX website has a complete list of the ETOs available over a particular stock. You can check prices and essential trading information.

SEARCH SCREEN



All underlying option search
Type the three letter ASX code for the company that you want to search options for.

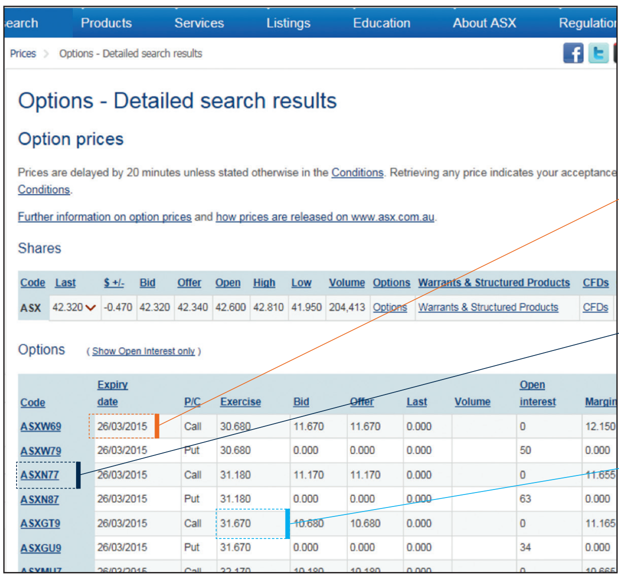
Expiry month
Refine your search by choosing a particular expiry month.

Puts and Calls
You can choose puts, calls or both.

Company search
Use this search box if you do not know the company code.

Direct option search
Use this search box if you know exactly which option series you are searching for.

SEARCH RESULTS SCREEN



Expiry months
Expiry months are sorted with the nearest month first.

Contract specifications
Click on the link for the key features of that option series.

Series listing
Series are listed in order of exercise price.

Glossary of terms

Adjustment to options contract

adjustments are made when certain events occur that may affect the value of the underlying securities. Examples of adjustments include changing the number of shares per contract and/or the exercise price of options in the event of a new issue or a reorganisation of capital by the issuer of the underlying securities.

American style

type of option contract which allows the holder to exercise at any time up to and including the expiry day.

Annualised return

the return or profit, expressed on an annual basis, the writer of the option contract receives for buying the shares and writing that particular option.

Assignment

the random allocation of an exercise obligation to a writer. This is carried out by ASX Clear.

At-the-money

when the price of the underlying security equals the exercise price of the option.

ASX Clear Pty Limited (ASX Clear)

a wholly owned subsidiary of ASX.

ASX Trade:

The trading platform for cash market equities, exchange traded options, interest rate securities and warrants. ASX Trade is a screen based trading system - brokers have terminals in their office from which they can view the market and execute trades.

Buy and write

the simultaneous purchase of shares and sale of an equivalent number of call option contracts.

Call option

an option contract that entitles the taker (buyer) to buy a fixed number of the underlying securities (usually 100) at a stated price on or before a fixed expiry day.

Class Category

Each security (Class) over which exchange traded options are traded has been allocated to a category designated by ASX. ASX has four different Class categories. A security is placed in a category by reference to the liquidity of such security. Category 1 stocks are the most highly liquid, Category 3 stocks are the least liquid and Category 4 is for Index options.

CHESS

Clearing House Electronic Sub-register System which provides the central register for the clearing and settlement of CHESS approved financial products, the transfer of securities and the registration of transfers.

Class of options

all option contracts covering the same underlying security.

ASX Clearing Participant

means an entity that has been admitted as a Participant under the ASX Clear Operating Rules.

Closing purchase

a transaction in which a party who has previously written (sold) an option liquidates the position as a writer by “taking” an option in the same series as the option previously written.

Closing out

a transaction in which a party who had previously taken (purchased) an option, liquidates the position as a taker by “writing” an option in the same series as the option previously taken or vice versa for a sold position.

Delta
the rate of change of option premium due to a change in price of the underlying securities.

Derivative
an instrument which derives its value from the value of an underlying instrument (such as shares, share price indices, fixed interest securities, commodities, currencies, etc). Options are a type of derivative.

Designated Trading Representative (DTR)
is a staff member of a Trading Participant (that is, a broker that has trading permission in respect of one or more products) who is authorised by ASX to access trading systems.

European style
type of option contract which allows the holder to exercise only on the expiry day.

Exercise price
the amount of money which must be paid by the taker (in the case of a call option) or the writer (in the case of a put option) for the transfer of each of the underlying securities upon exercise of the option.

Expiry day
the date on which all unexercised options in a particular series expire.

Fair value
the theoretical value generated using an options pricing model.

Haircut
A reduction in the value of securities lodged to cover margins.

Hedge
a transaction which reduces or offsets the risk of a current holding. For example, a put option may act as a hedge for a current holding in the underlying instrument.

Implied volatility
a measure of volatility implied by the current market price of an option.

In-the-money
an option with intrinsic value.

Intrinsic value
the difference between the market value of the underlying securities and the exercise price of the option. It represents the advantage the taker has over the current market price if the option is exercised. Intrinsic value cannot be less than zero.

Long term option
an option with a term to expiry of two or three years from the date the series was first listed.

Margin
an amount calculated by ASX Clear to cover the obligations arising from option contracts.

Market maker
option traders with obligations to provide market liquidity by making bids and offers for nominated option series.

Multiplier
is used when considering index options. The strike price and premium of an index option are usually expressed as points. A multiplier is then applied to give a figure in dollars and cents. For example, the multiplier may be $10 per point, meaning that to buy an index option with a premium of 100 points, an investor would pay $1,000.

Open interest
the number of outstanding contracts in a particular class or series existing in the option market. Also called the “open position”.

Opening purchase
a transaction in which a party becomes the taker of an option.

Opening sale
a transaction in which a party becomes the writer of an option.

Out-of-the-money
a call option if the market price of underlying securities is below the exercise price of the option; a put option is out-of-the-money if the market price of the underlying securities is above the exercise price of the options.

Premium

the amount payable by the taker to the writer for entering the option. It is determined through the trading process and represents current market value.

Put option

an option contract that entitles the taker (buyer) to sell a fixed number of underlying securities (usually 100) at a stated price on or before a fixed expiry day.

Random selection

the method by which an exercise of an option is allocated to a writer in that series of options.

Series of options

all contracts of the same class and type having the same expiry day.

SPAN

Standard Portfolio Analysis of Risk. SPAN is a risk based portfolio approach system for calculating initial margin requirements.

Spot month option

an option with a term to expiry of around four weeks from the date the series was first listed.

Taker

the buyer of an option contract.

Time value

the amount investors are willing to pay for the possibility that they could make a profit from their option position. It is influenced by time to expiry, dividends, interest rates, volatility and market expectations.

Underlying securities

the shares or other securities subject to purchase or sale upon exercise of the option.

Volatility

a measure of the expected amount of fluctuation in the price of the particular securities.

Writer

the seller of an option contract.

Option contract specifications

NAME	ASX EQUITY OPTIONS
Underlying security	Any share approved by ASX under Guidelines for Listing Equity Options
Security code	The first three characters will be the ASX code eg. BHP, the fourth and fifth character and sixth character (if required) will designate the expiry month and series
Contract size	Usually 100 shares per contract. This may be adjusted for rights, bonus issues and other capital adjustment events
Tick size	$0.001 per share = $0.10 (contract size 100 shares) for premium below 1 cent
	$0.005 per share = $0.50 (contract size 100 shares) for premium of 1 cent or more
Exercise style	Usually American, ie. exercisable on or before the expiry date but some series are European where the only day exercise is allowed is on expiry.
Exercise price	Varies for each stock
Type	Call and put options
Contract months	As detailed in the ASX expiry calendars
Expiry date	Thursday before last Friday of the settlement month. This may change due to public holidays.*
Trading hours	Normal trading 10.00am to 4.20pm (Sydney time). Late trading 4.20pm to 5.00pm and overseas trading in accordance with the ASX Operating Rules. (For the complete list of trading days, view the ASX trading calendar on the ASX website.)
Settlement	Physical delivery of underlying security

CONTRACT NAME	INDEX OPTIONS
Underlying index	S&P/ASX200 (XJO)
Security code	The first three characters will be the ASX code, eg. XJO, the fourth and fifth character and sixth character (if required) will designate the expiry month and series
Index multiplier	$10. Each index point is equal to $10
Tick size	Quoted as 1 index point
Exercise style	European, ie. exerciseable only on expiry day
Exercise interval	25 Index points
Type	Call and put options
Contract months	First 5 serial months and March quarterly expiry cycle up to 6 quarters ahead.
Contract weeks	First 2 to 3 weeks including the monthly expiry.
Last trading	Expiry day
Expiry day	12.00pm on the third Thursday of the contract month
Trading hours	6.00am to 5.00pm and 5.30pm to 8.00pm (Sydney time)
Settlement	Cash settled against the Opening Index Price Calculation (OPIC) as calculated on expiry day

For current option contract specifications, please refer to the ASX website at **www.asx.com.au/options**

* This may change post 2016 where the expiry of equity and index options will be aligned

Further information

For ASX explanatory booklets on options, please phone 131 279, or download the booklets from the ASX website **www.asx.com.au/options**

Online Classes

Online options classes include interactive exercises that will aid your learning and a quiz at the end of each section to show your progress.

Webinars

Online seminars and recordings of past sessions to aid your learning.

Website

www.asx.com.au/options

Email

options@asx.com.au

Phone

131 279

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