



**EXCHANGE TRADED OPTIONS & LOW EXERCISE PRICE OPTIONS  
PRODUCT DISCLOSURE STATEMENT**

PART 1

Incorporating Part 2: SCHEDULE OF FEES

**Issued by:**

**AUSTRALIAN STOCKBROKING & ADVISORY SERVICES LTD**  
trading as **Minc Stockbroking**

**ABN 86 094 106 751**

**AFSL 294097**

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## 1. GENERAL INTRODUCTION

### 1.1 Important Information

**The information in this Product Disclosure Statement (PDS) does not take into account your personal objectives, financial situation and needs. Before trading in the products referred to in this PDS you should read this PDS and be satisfied that any trading you undertake in relation to those products is appropriate in view of your objectives, financial situation and needs.**

**We recommend that you consult your financial adviser before trading in exchange traded options.**

### 1.2 Purpose of this PDS

This Product Disclosure Statement (**PDS**) has been prepared by Australian Stockbroking & Advisory Services Ltd trading as Minc Stockbroking (Minc Stockbroking) the issuer of the exchange traded options. This PDS is designed to assist you in deciding whether ETO's are appropriate for your needs and to assist you in comparing it with other financial products you may be considering. This PDS is an important document and we recommend you contact us should you have any questions. (Our contact details are set out at 2 below.)

Although the information in this PDS is up to date as at the date of publication, it is subject to change from time to time. Where such information is not materially adverse, we may provide updates on our website at [www.mincstockbroking.com.au](http://www.mincstockbroking.com.au) . A paper copy is also available on request at no charge to you.

We may also be required to issue a new PDS or a supplementary PDS as a result of certain changes, in particular where the changes are materially adverse to retail clients. Any supplementary PDS will be posted on our website at [www.mincstockbroking.com.au](http://www.mincstockbroking.com.au) . A paper copy will also available on request at no charge to you.

When we use terms 'we', 'us' or 'our' in this PDS, the reference is to Minc Stockbroking.

### 1.3 PDS in Two Parts

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

You should read both parts of the PDS before making a decision to trade in exchange traded options and you should retain it for future reference.

### 1.4 What Products does this PDS cover?

This PDS relates to exchange traded options traded on the market operated by Australian Securities Exchange Limited (**ASX**) and settled and cleared by Australian Clearing House Pty Ltd (the **Clearing House**). 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<sup>1</sup>.
- **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 found on the ASX website

<http://www.asx.com.au/investor/options/index.htm>.

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

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<sup>1</sup> Note that ASX makes available for trading equity options over various financial products, including shares in companies and interests in managed investment schemes. For ease of reference, we will refer in this PDS to underlying shares, but investors should be aware that the underlying financial product may be another financial product in some cases.

**2. ABOUT AUSTRALIAN STOCKBROKING & ADVISORY SERVICES LTD – THE ISSUER**

- Australian Stockbroking & Advisory Services Ltd is a Participant of the Australian Securities Exchange Ltd Group and the holder of an Australian Financial Services Licence 294097. Australian Stockbroking & Advisory Services Ltd uses the trading name of Minc Stockbroking (Minc Stockbroking). Minc Stockbroking is not a trading or clearing participant of ASX and has third party trading and clearing arrangements in place with ETRADE Australia Securities Ltd (ETRADE). Minc Stockbroking also has execution arrangements with Minc Financial Services Pty Ltd who arrange clearing of client transactions with Berndale Securities Ltd (Berndale). Any clients of Minc Stockbroking who have entered into derivative clearing agreements with either ETRADE or Berndale will be governed by the terms of those agreements.
- Minc Stockbroking commenced business on 21 December 2005 and is a subsidiary of Minc Financial Services Holdings Pty Ltd and Catalyst 100 Pty Ltd (“Catalyst”). Catalyst is owned by the management and representatives of Minc Stockbroking.

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### 3. WHAT ARE EXCHANGE TRADED OPTIONS?

#### 3.1 Types of Exchange Traded Options

The 3 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

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

##### (b) Index options

Index options are options over an index such as the S&P™/ASX 200™ Index or the S&P™/ASX 200™ Property Trust Index. These options are known as "cash settled" options in the sense that, on exercise of an option, the Buyer (taker) of the option will have the right to receive an amount of money and the Seller (writer) will have a corresponding obligation to pay that amount (provided the option is "in-the-money"). The amount of money will be determined by the difference between the exercise level (set by ASX) and the Opening Index Price Calculation (**OPIC**) as calculated by ASX on the expiry date of the option. The OPIC is based on the first traded price of each constituent stock in the index on the expiry day (if a constituent stock does not trade on the expiry day, the last traded price from the previous trading day will be used). Cash settlement occurs in accordance with the rules of the Clearing House.

##### (c) Low Exercise Price Options (LEPOs)

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.

#### 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 on page 22.

### 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 of charge to you via their website at <http://www.asx.com.au/investor/options/booklets.htm> as set out below.

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

- **“Understanding Options Trading”**- this booklet discusses the features and contract specifications of 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 online by using the following link:

<http://www.asx.com.au/markets/pdf/UnderstandingOptions.pdf>

- **"Understanding Option Strategies"** – this booklet describes in more detail how Exchange Traded Options may be used in various trading strategies. You can view this booklet online by using the following link:

<http://www.asx.com.au/markets/pdf/UnderstandingStrategies.pdf>

- **"Margins"** – this booklet explains what margins are, how they are calculated by the Clearing House and how a Clearing Participant may meet its margin obligations to the Clearing House. You can view this booklet online by using the following link:

<http://www.asx.com.au/markets/pdf/UnderstandingMargins.pdf>

- **"LEPOs The Benefits of Share Futures with the Flexibility of Options"** – this booklet explains what LEPOs are and discusses their specific features and the risks and advantages in trading LEPOs. You can view this booklet online by using the following link:

[https://www.asx.com.au/markets/pdf/LEPOS\\_Brochure.pdf](https://www.asx.com.au/markets/pdf/LEPOS_Brochure.pdf)

- **"LEPOs Low Exercise Price Options Explanatory Booklet"** This booklet explains further the features of LEPOs. You can view this booklet online by using the following link:

<http://www.asx.com.au/markets/pdf/UnderstandingLEPOs.pdf>

If you cannot access the ASX booklets via the ASX website, you should contact the ASX. If you would like a hard copy of the **"Understanding Options Trading"** booklet, please contact us and we will arrange to forward a copy of that booklet to you at no charge.

If you have any questions on any aspect of the booklets you should consult us before making any investment decisions.

#### 4. BASIC FEATURES OF EXCHANGE TRADED OPTIONS

The following discussion is not intended to be a detailed discussion of the features of the 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 Standardised 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 operating rules.

Details of contract specifications for Exchange Traded Options are published by the ASX on their website at [http://www.asx.com.au/investor/options/trading\\_information/contract\\_specs.htm](http://www.asx.com.au/investor/options/trading_information/contract_specs.htm). The contract specifications detail the key standardised 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 1,000 (eg. 1000 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
- the expiry date.

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 options 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 the Clearing House 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 the Clearing House is required to buy the standard quantity of shares at the predetermined exercise price.

### (b) Index options

*Call options* (in the case of index 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 the Clearing House is required to pay the corresponding amount.

*Put options* (in the case of index 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 the Clearing House 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 day. *European style* options can only be exercised on the expiry day and not before. Most ASX exchange traded equity options are American style options. ASX exchange traded index options are European style. 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.

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 1,000 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 1,000, the total premium is \$250.00 (being \$0.25 x 1,000).

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 at the link provided 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/resources/calculators/index.htm>

You can obtain current price information from your adviser at Minc Stockbroking.

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 at the link provided 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, the Clearing House will make a corresponding adjustment to the terms of contracts which are already open.

ASX has issued an **Explanatory Note for Option Adjustments** which can be found at [http://www.asx.com.au/investor/pdf/explanatory\\_note\\_option\\_adjustments.pdf](http://www.asx.com.au/investor/pdf/explanatory_note_option_adjustments.pdf) which provides further information regarding ASX option adjustments.

#### 4.7 No Dividends or Entitlements

The parties to an equity option do not, under the terms of the option, have any entitlement to dividends, franking credits or other entitlements paid or made by the issuer of the underlying shares. Of course, the Seller (writer) of a call option or the Buyer (taker) of a put option who holds the underlying shares will have an entitlement to dividends, franking credits and other entitlements, but these are entitlements of the holders of the shares, not through the option contract.

If the Buyer of a call option wants to participate in a prospective dividend or entitlement, the Buyer will need to first exercise the option, allowing sufficient time to become the registered holder prior to the Ex Dividend or Ex Entitlement date. The resulting sale and purchase of underlying shares on the exercise of an equity option will settle on the third business day following the exercise of the option (see the discussion below under the heading "*Settlement following exercise of Exchange Traded Option*").

#### 4.8 Expiry

Exchange Traded Options have a limited life span. All Exchange Traded Options have 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.

The 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 Australian Clearing House 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/investor/options/trading\\_information/expiry\\_calendar.htm](http://www.asx.com.au/investor/options/trading_information/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, the Clearing House will randomly assign that exercise to an open position held by a writer in the relevant option series.

#### **4.10 Automatic exercise**

ACH will automatically exercise your taken exchange traded option contract if your contract is one cent in the money or one point for indexes. 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 option contracts will expire on the expiry date.

Suppression of the exercise of an expiring option can be facilitated by the sending of an email to [operations@mincstockbroking.com.au](mailto:operations@mincstockbroking.com.au) requesting a particular open position be excused from being exercised.

#### **4.11 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 are cash settled.

#### **4.12 Settlement following exercise of Exchange Traded Option**

When an equity option is exercised by a Buyer (taker), and the exercise is assigned by the Clearing House 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 the Clearing House Electronic Sub-register System (CHESS) on T+3. CHESS is operated by ASTC, the settlement facility for ASX transactions and settlement will occur in accordance with the

ASTC Rules. Your obligations in relation to settlement are set out in Minc Stockbroking's terms and conditions.

Index options are cash settled. When an index option is exercised by a Buyer, and the exercise is assigned by the Clearing House to an open position of a Seller, the Seller of the option must pay the cash settlement amount to the Clearing House. That amount will be determined by the difference between the exercise level (set by ASX) and the Opening Index Price Calculation (OPIC) as calculated by ASX on the expiry date. Cash settlement occurs in accordance with the rules of the Clearing House. For more information on settlement of index options see the section entitled "Trading index options" in the ASX Booklet "**Understanding Options Trading**" available at the link provided in section 3 above.

#### **4.13 Time for payments to us**

Minc Stockbroking requires that you settle at T+1 (that is within 24 hours from the time the trade occurred) for all cash positions which arise from premiums, interest, and other cash financial transactions. This requirement is reflected in the terms of our client agreement with you. You are required to pay the margin amounts we call from you within 24 hours of being advised of the margin amount by us. Please see the discussion on margins on page 17 below.

#### **4.14 Cooling off period**

There are no cooling-off arrangements for Exchange Traded Options.

#### **4.15 Option contracts which are open for trading**

Full details of all Exchange Traded Options listed on ASX and expiry date information can be found on the ASX website at [http://www.asx.com.au/investor/options/trading\\_information/index.htm](http://www.asx.com.au/investor/options/trading_information/index.htm) or alternatively through information vendors or newspapers. A list of current option codes and delayed price information is available on the ASX website at [http://www.asx.com.au/investor/options/trading\\_information/index.htm](http://www.asx.com.au/investor/options/trading_information/index.htm)

Details of the previous day's trading are published in summary form in the Australian Financial Review and more comprehensively in The Australian. If you cannot access the above information, please contact us and we will arrange to provide you with the information.

#### **4.16 Opening an Exchange Traded Option position**

Unlike shares, Exchange Traded Options are not instruments which a person buys or sells in the ordinary sense. 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).

#### **4.17 Closing out an Exchange Traded Option 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 underlying share.
- 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 underlying share.

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

#### 4.18 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 (eg. 1,000 shares per 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, 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 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.

**4.19 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 "Understanding Options Trading" available at the link provided in section 3 above.

## 5. **CLEARING AND SETTLEMENT ARRANGEMENTS – THE ROLE OF THE CLEARING HOUSE AND THE NATIONAL GUARANTEE FUND**

Exchange Traded Options are traded on the ASX's trading platform and cleared through the Clearing House. Participants of ASX must comply with the operating rules of the ASX. Participants who clear option contracts must comply with the operating rules of the Clearing House (**Clearing Rules**). Minc Stockbroking is a participant of ASX and Minc Stockbroking's third party clearers are participants of the Clearing House. The Clearing House for ASX traded options is Australian Clearing House Pty Limited (**ACH**) which is a licensed clearing and settlement facility under the Corporations Act.

### 5.1 **The role of the Clearing House**

All Exchange Traded Options traded for you by us will be cleared by the Clearing House, subject to the Clearing Rules.

When we enter into an Exchange Traded Option for you, the transaction is reported to the Clearing House for registration. On registration of a contract by the Clearing House, the original traded contract is terminated and replaced by two contracts, known as Derivatives CCP Contracts. One of those is between the Clearing Participant who clears the contract for the Buyer (taker) of the option contract and the Clearing House. The other is between the Clearing Participant who clears the contract for the Seller (writer) of the option contract and the Clearing House. This process of registration and creation of two Derivatives CCP Contracts is known as "novation" and is described briefly in the section entitled "You and your broker" in the ASX booklet, "**Understanding Options Trading**" available at the link provided in section 3 above.

You, as the client, are not party to either of those contracts actually registered with the Clearing House. Although we may act on your instructions or for your benefit, upon registration of the Exchange Traded Option with the Clearing House in our name as the Clearing Participant, we incur obligations to the Clearing House as principal, even though the Exchange Traded Option may have been entered into on your instructions.

### 5.2 **Margins**

As the Clearing House contracts with Clearing Participants as principals, where a Clearing Participant has an exposure under an Exchange Traded Option contract to the Clearing House, the Clearing House will call amounts of money known as "Margin" from the Clearing Participant as cover. Margins are generally a feature of all exchange traded derivative products and are designed to protect the Clearing House against default. A margin is the amount calculated by the Clearing House 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 the Clearing House. That is because the Clearing House 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 the Clearing House for Exchange Traded Options is made up of two components, in each case, determined by the Clearing House:

- 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 the Clearing House, following the close of trading each day. In times of extreme volatility an intra day margin call may be made by the Clearing House.

We will, under the terms of our agreement with you, call from you all amounts of margin which the Clearing House calls from us in respect of positions which we have entered into for you. We may also call for greater amounts of margin if we regard this as appropriate.

### 5.3 Collateral

Clearing House margin obligations may be met by paying cash or by providing certain types of eligible collateral (eg. shares). Shares (held by you) which are acceptable to the Clearing House may be lodged with the Clearing House as collateral for margin obligations relating to Exchange Traded Option positions. When shares are lodged with the Clearing House, the shares are held by the Clearing House as 'third party security' in the sense that they represent collateral provided by you to secure our obligations as Clearing Participant to the Clearing House. The lodged shares cannot be used by us in relation to our dealings or for our other clients in relation to their dealings unless authorised by you.

As a risk management tool, the Clearing House may apply a 'haircut' in relation to the value of collateral lodged. For example, if you lodge \$10,000 worth of collateral and the Clearing House applies a 30% haircut, only \$7,000 will be considered as collateral cover for any margin obligations.

The margining process used by Clearing House is explained in detail in the ASX booklet "**Margins**" which is available on the ASX website or by following the link below:

<http://www.asx.com.au/markets/pdf/UnderstandingMargins.pdf>

You must pay margin to us, or provide alternative collateral which is acceptable to us, by 1 pm on the business day following a call for margin. All required funds are to be remitted to your Cash Management Trust account or your nominated bank account as required by our Terms and Conditions. We reserve the right to charge interest on any outstanding amount as per our Fees and Charges in Part 2 of this PDS.

Any interest levied on late settlement and margin payments is due and receivable at the time the amount is levied and certainly within 1 business day of a demand being made by Minc.

#### **5.4 Client Trust Accounts**

The Corporations Act provides that your money held in a trust account can be used for the purposes of meeting margin obligations, guaranteeing, securing, transferring, adjusting or settling dealings in derivatives. Our clearers may apply your funds held in their trust account for this purpose.

#### **5.5 National Guarantee Fund**

The National Guarantee Fund (**NGF**) provides investors with protection in the following circumstances:

1. If an equity option is exercised, the NGF guarantees completion of the resulting trades in certain circumstances; and
2. if you have entrusted property to us in the course of dealing in Exchange Traded Options, and we later become insolvent, you may claim on the NGF, in accordance with the rules governing the operation of the NGF, for any property which has not been returned to you or has not otherwise been dealt with in accordance with our obligations to you. There are limits on claims to the NGF for property entrusted.

For more information on the possible protections offered by the NGF see <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 the Clearing House, 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 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 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 – see the risks outlined below.

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 at the link provided 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/todayAnnHeaders.jsp>
- (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 investors 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 difficulty** The placing of contingent orders (such as a 'stop-loss' order)<sup>2</sup> may not always limit your losses to the amounts that you may want. Market conditions may make it impossible to execute such orders. For example, if the price of the underlying 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) **ASX powers.** The ASX and the Clearing House 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.

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<sup>2</sup> Is an order that becomes a market order (and hence executed) when the derivatives market reaches the designated price.

- (l) **Trading disputes.** Trades effected on the ASX may be subject to dispute. When a trade is subject to a dispute the ASX has powers, in accordance with its rules, to request that a broker amend or cancel a trade, which will in turn result in the contract with the client being amended or cancelled. In some situations, ASX may also exercise powers to cancel or vary, or direct the cancellation or variation, of transactions.
- (m) **Trade amendments and cancellations.** Under our terms and conditions, we have the ability to amend or cancel the trade. This could cause you to suffer loss or increase your loss. A trade executed on your behalf can also be amended or cancelled even where the trade has been confirmed to the client;
- (n) **System outages.** Trades effected on the ASX are traded on an electronic trading platform and cleared through the Clearing House, 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 the Clearing House. 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. A good general rule is never to speculate with money which, if lost, would alter your standard of living.
- (p) **Loss of LEPO margins.** In the case of LEPOs, they 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 the Clearing House.**
- (q) **Default.** 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 us is withdrawn or becomes ineffective;
- (iii) any other event occurs which we have agreed with you 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;
- (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;
- (vii) sell any underlying shares purchased in connection with your Exchange Traded Options account with us and any other shares in your trading account with us at your risk and expense if you fail to pay us after we demand payment;
- (viii) choose not to transfer shares into your trading account with us until payment is received;
- (ix) purchase the required number of shares, at your risk and expense,

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.

## **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 the 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 "Understanding Options" booklet available following the link provided in section 3 above and also the ASX's "Options Calculator" available by following the link below:

<http://www.asx.com.au/resources/calculators/index.htm>

### **8.2 Margin and collateral**

If you the Seller (writer) of an Exchange Traded Options contract, you will be required to provide margin, and in certain circumstances collateral, to the Clearing House 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 by following the link provided in section 3 above.

### **8.3 Broker additional margin requirements**

Details of any further margin requirements that we may request are 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.

**9. DISPUTE RESOLUTION SYSTEM**

If you have any concerns or comments about the financial service or financial products provided to you, you should Send your complaint in writing to the Compliance Manager, Minc Stockbroking, Level 14, 234 George Street, Sydney NSW 2000. If you have not received a satisfactory response or 45 days have elapsed you may refer the matter to the Financial Ombudsman Service (**FOS**).

Minc Stockbroking is a member of FOS. FOS can be contacted on 1300 08 08 or GPO Box 3, Melbourne, Victoria, 3001. This service is provided to you free of charge.

If you require further information on how we handle complaints, please visit our website [www.mincstockbroking.com.au](http://www.mincstockbroking.com.au) or refer to our Financial Services Guide.

## 10. SIGNIFICANT TAXATION IMPLICATIONS

The information below is based on existing tax law and established interpretations as at the date of this PDS.

The taxation information provided below is intended as a brief guide only and does not cover every aspect of taxation related with the use of 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).

The taxation of options can be complex and may change over time. Accordingly, you are recommended to seek professional tax advice before entering in to or disposing of an Exchange Traded Option.

### 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.

Where an option on revenue account lapses, there are no further tax implications. However, where an option on revenue account is exercised, the option strike price will form part of the acquisition cost or disposal proceeds for the underlying asset in question.

Alternatively, where the option is closed-out prior to its expiration, any gain or loss on the option position will be treated as assessable or deductible as the case may be.

### ***Capital account***

#### ***Seller of the option***

Where 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. 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 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.

#### ***Exercise of a call option***

Where a call option is exercised, the option premium and the proceeds on the sale of the underlying asset should be treated as a single transaction. Accordingly, both the premium and the proceeds received will form part of the 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***

Where a put option is exercised, the option premium paid and exercise price will form part of the cost base of the underlying asset for the investor. Accordingly, both the premium and the strike price paid will form part of the 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.

Where an option on 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*

Where a call option is exercised, the option premium and exercise price will form part of the cost base of the underlying asset for the Buyer.

#### *Exercising a put option*

Where 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 New Rules for the Taxation of Financial Arrangements**

The taxation of financial arrangements will change with the introduction of the new Taxation of Financial Arrangements (**TOFA**) rules. ETOs covered by this PDS are expected to qualify as financial arrangements and therefore the TOFA rules are likely to have a significant impact on the taxation of ETOs. Briefly, the rules:

- (a) will generally deem gains and losses from financial arrangements to be on revenue account;
- (b) are likely to 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.

*Who will the TOFA rules apply to?*

Generally, the TOFA rules will 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 will the TOFA rules commence?*

Generally, the TOFA rules apply from 1 July 2010. However, taxpayers may elect for the rules to start applying 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 new rules will apply from 1 July 2011 (or from 1 January 2010 by election).

*How will the TOFA rules impact on the taxation of ETOs?*

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 by investors of Exchange Traded Options over financial products and indices is not subject to GST.



**EXCHANGE TRADED OPTIONS & LOW EXERCISE PRICE OPTIONS**

**PRODUCT DISCLOSURE STATEMENT**

PART 2 of the ASANDAS's PDS

SCHEDULE OF FEES

**Issued by: AUSTRALIAN STOCKBROKING & ADVISORY SERVICES LTD**  
**trading as Minc Stockbroking**

**ABN 86 094 106 751 AFSL 294097**

**Date of Issue: 31 October 2009**

**THIS PDS COMPRISES TWO PARTS**

This document forms part of the Product Disclosure Statement (**PDS**) for Exchange Traded Options. This document should be read in conjunction with Part 1 of the PDS which describes the Exchange Traded Option products traded by us.

## **OUR 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.

### **Brokerage**

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 \$150 per trade plus GST to open or close a position.

Brokerage is charged as follows:

<b>Value of options contract</b>	<b>Brokerage payable</b>
\$0 - \$5,000	\$150 minimum
\$5,001 - \$15,000	\$150 minimum
\$15,001 and over	1% of premium

For example, if you buy an option contract with a premium value of \$0 - \$15,000, you will pay \$150 being the minimum charge applicable. If you buy an option contract with a premium value in excess of \$15,000 you will pay 1% of the total premium of the option contract, e.g. if the total premium is \$20,000 you will pay \$200 brokerage being 1% of the premium.

A different rate of brokerage may be negotiated with your Adviser. Consideration will be given to a negotiated rate and could for instance, be dependent on the volume and size of Exchange Traded Option transactions which occur on your account. All brokerage charges are shown on your confirmation.

### **Additional Margin Requirements**

Further margin payments may be requested by our Third Party Clearers dependent on implied market volatility, up shock market volatility and down shock market volatility as determined by them from time to time.

### **Goods and services tax (GST)**

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

The purchase and disposal of Exchange Traded Options over shares and the share price index by investors is not subject to GST.

### **Australian Clearing House (ACH) Fees**

ACH charges a transaction fee of \$1.43 per option contract, including GST. If you exercise an Exchange Traded Option or get assigned on an Exchange Traded Option, ACH charges an exercise fee of \$0.55 per contract, including GST.

In the case of index options, ACH charges \$0.39 per contract including GST, for both the transaction fee and the exercise fee.

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

Some fees that we charge may be tax deductible. You must confirm this with your own tax adviser or accountant, in relation to your specific situation.

### **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.

### **Remuneration**

An Adviser is remunerated by way of a commission / brokerage / fee split with Minc Stockbroking. The exact split of commissions, brokerage and fees varies based on a number of factors, but is within a range of 50% to 80% of the amount earned by Minc Stockbroking. In relation to exchange traded options this would be after the third party fee and any additional costs are deducted.

### **Other Administrative Fees & Charges**

Options or LEPO Fail Fee	\$110.00 per day + corresponding penalty fees
Penalty Fees	15% pa on all outstanding monies
Rebooking Fee	\$33.00

All ASX charges incurred on your behalf will be charged to your account.

Fees are charged by ACH on each transaction. The exact value of these fees varies depending on your transaction and will be disclosed on your confirmation.

All amounts set out above are GST inclusive.

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

*Product Disclosure Statement*

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