

Product Disclosure Statement-Part A

Exchange Traded Options

Incorporating Part B – Schedule of Fees



Australian Investment Exchange Ltd

ABN 71 076 515 930
AFS Licence No 241400
Participant of the ASX Group
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Level 7, 141 St Georges Terrace
Perth WA 6000
PH: 1300 360 892
FAX: 08 9321 1553

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Part A – Product Disclosure Statement

This Product Disclosure Statement (PDS) outlines important information you should consider before investing in Exchange Traded Options (ETOs). This PDS includes features about Australian Investment Exchange Ltd's ("our", "us", "we") product, the fees that apply, the benefits and risks of the product, and other information that you should consider.

The information in this PDS does not take into account your personal objectives, financial situation and needs. Before trading in ETOs you should be satisfied that such trading is suitable for you in view of those objectives, and your financial situation and needs, and we recommend that you consult your investment advisor or obtain other external advice.

Purpose of this PDS

This PDS has been prepared by Australian Investment Exchange Ltd as the issuer of the ETOs. This PDS is designed to assist you to decide whether the ETO products described in this PDS are appropriate for your needs. This PDS has also been prepared to assist you in comparing it with others you may be considering. It is an important document and we recommend you contact us should you have any questions arising from it prior to entering into any transactions with us.

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

What products does this PDS cover?

This is a PDS for ETOs traded on Australian Stock Exchange Limited (ASX) and settled and cleared by Australian Clearing House Pty Ltd ("Clearing House"). It deals with ETOs and index options but not Low Exercise Price Options. Exchange traded equity options are options over quoted shares (or other securities) of a range of different companies listed on ASX.

Exchange traded index options are options over an index such as the S&P™ /ASX 200™ Index or the S&P™ /ASX 200™ Property Trust Index.

A list of companies and indices over which ETOs are traded can be found on the ASX website.

Introduction

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

- hedge against fluctuations in their underlying share portfolio;
- increase the income earned from their portfolio; and
- to profit from speculation.

Their flexibility stems from the ability to both buy and sell an option contract and undertake multiple positions targeting specific movements in the overall market and individual equities.

The use of ETOs within an investor's overall investment strategy can provide great flexibility to take advantage of rising, falling and sideways markets. However, both the purchase and sale of ETOs involves risks that are discussed in this PDS.

Specific concepts which should be practically understood before engaging in an options strategy are:

- The effect time has on any one position/strategy;
- How volatility changes, both up and down, may change your pay-off diagram for a position;
- How to calculate margins and worst-case scenarios for any position;
- The likelihood of early exercise and the most probable timing of such an event;
- The effect of dividends and capital reconstructions on an options position; and
- Liquidity of an options series, the role of market makers, and the effect this may have on your ability to exit a position.

When buying an ETO, the initial outlay of capital may be small relative to the total contract value so that transactions are "leveraged" or "geared". Transactions should only be entered into by investors who understand the nature and extent of their rights, obligations and risks associated with trading ETOs.

When selling an ETO, the initial income may seem attractive but the downside may be unlimited. Risk minimisation strategies should be employed to mitigate losses when a position does not move in a favourable manner.

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

Whilst we do not provide personal advice or recommendations, we do provide factual information to investors about financial products and markets.

Prior to trading ETOs with us, you are required to do the following:

- Read and understand the ASX ETOs explanatory booklet;
- Read this PDS which explains our product;
- Open a trading account with us by completing the Main Application Form;
- Read and understand the Risk Disclosure Statement for derivatives traded on ASX; and
- Complete the ETOs Client Agreement Form.

Educational booklets

ETOs have been traded in Australia since 1976 on the ASX. Over this time, ASX has prepared a number of educational booklets relating to ETOs which are available to you via their website.

In addition to reading this PDS, investors are advised that the PDS cross references certain of the ASX booklets. The ASX booklets that relate to options include "Understanding Options Trading", "Margins", "Understanding Option Strategies" which are available free on the ASX website. These booklets provide useful information regarding options traded on the ASX, including option features, advantages of options, risks associated with options, option adjustments, option pricing, margins, taxation and option contract specifications.

One of the ASX booklets entitled "Understanding Options Trading" is a booklet which we must give you in accordance with the ASX operating rules when you sign our Client Agreement to trade ETOs. This booklet is also available on the ASX website.

If you cannot access the ASX booklets via their website, please contact us immediately and we will arrange to forward copies of the booklets to you at no charge. If you have any questions on any aspect of the booklets you should consult us before making any investment decision.

Who we are

Australian Investment Exchange Ltd is a wholly owned subsidiary of IWL Limited and is primarily a provider of online share trading services through our trading website and is bound by the National Privacy Principles that form part of the Privacy Act, 1988. This determines the ways in which we must treat personal information and covers personal information that may be gathered through the Internet, telephone, fax or post. A copy of our privacy policy is available on our trading website, via email, fax or post.

We do not provide financial planning services and do not provide personal advice. However, we do provide factual information to investors about products and markets and as this information may be considered to be general financial product advice, we are required to provide you with this PDS.

We do not provide advice about a product's suitability for your particular needs, objectives or financial circumstances, even if we comment on the current or future market conditions or prospects for products.

What are ETO contracts?

ETOs may be American or European style exercise. Most ASX options are American style, which means they are tradeable and can be exercised at any time prior to the expiry day. European options which includes index options, can only be exercised on the expiry day.

An ETO is a contract between two parties which gives the buyer (the taker) the right, but not the obligation, to buy or sell the shares underlying the option at a specified price (exercise price) on, or before a predetermined date. To acquire this right, the taker pays a premium to the seller (writer) of the contract. When considering options over an index, the same concepts generally apply.

The premium is not a standardised feature of the ETO contract and is established between the taker and writer at the time of the trade.

ETO 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 "takers" of an ETO as they take up the right to buy or sell a parcel of shares. Every ETO contract has both a taker and a writer.

There are two types of ETOs, namely call options and put options. All option positions consist of one or more of either a bought call, a sold call, a bought put, or a sold put. A long (or bought) option position is created by the purchase of a call or put. A short (or sold) position is created by the sale of a call or put. By combining two or more of these basic positions, an investor can create a trading strategy that meets a range of investment objectives, including the protection of an existing portfolio of shares.

For more information on possible trading strategies we refer you to the ASX Booklet entitled "Understanding Options Strategies" available on the ASX website.

Call options give the 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 taker exercises their right to buy, the seller (writer) is required to sell a standard quantity of shares at the predetermined exercise price.

Put options give the 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 taker exercises their right to sell, the seller (writer) is required to buy a standard quantity of shares at the predetermined exercise price. The premium is the price of the option agreed to by the buyer and seller through the market.

The taker will always pay the writer a price (called the premium) to enter into the option contract. The writer receives and keeps the premium but has the obligation to buy from or deliver to the taker the underlying shares at the exercise price if the taker exercises the option.

Deliverable or cash settled

ETOs are either deliverable or cash settled. Most exchange traded equity options are deliverable, that is with physical delivery of the underlying security, whilst index options are cash settled. Cash settlement occurs in accordance with the rules of the Clearing House against the Opening Index Price Calculation (OPIC) as calculated on the expiry date.

Standardised Contracts

ETOs are created by the exchange on which the underlying equity or index is listed. We trade ETOs in relation to companies and indices listed on the ASX. The ASX website provides a list of companies and indices over which ETOs are traded.

ASX determines the key contract specifications for each series of ETOs listed, including:

- (a) the underlying security or underlying index;
- (b) the contract size where 1 option contract on ASX usually represents 1000 underlying shares;
- (c) the exercise price (or strike price) – The exercise price (or strike price) is the specified price at which the taker (buyer) of an equity option can buy or sell the underlying shares. The ASX sets the range of exercise prices at specific intervals according to the value of the underlying shares. It is important to note that the exercise price of an equity option may change during the life of an option if the underlying share is subject to a bonus or rights issue or other form of capital reconstruction. The number of underlying shares may also be subject to an adjustment; and
- (d) the expiry date – ETOs have a limited pre-determined life span and generally follow one of three cycles, namely:
 - (i) January/April/July/October
 - (ii) February/May/August/November
 - (iii) March/June/September/December.

The ASX may in accordance with its operating rules make an adjustment to any of the above specifications if the listed entity over which the option relates makes a pro-rata change to its ordinary share capital structure (eg bonus issues or special dividends are declared). If ASX does make an adjustment it will endeavour to preserve the open positions of takers and writers at the time of the adjustment as best as possible. ASX has issued an Explanatory Guide for Option Adjustments which can be found on the ASX website which provides further information regarding ASX option adjustments.

Full details of all ETOs listed on ASX and expiry date information can be found on the ASX website or alternatively through us. A list of current option codes and delayed price information is available on the ASX website. Details of the previous day's trading are published in summary form in the *Australian Financial Review* and more comprehensively in *The Australian*.

Details of contract specifications for ETOs are published by the ASX on their website. The contract specifications detail the key standardised features of ETOs and index options traded on ASX.

Premium

The premium (price of the option) is not set by the ASX. It is negotiated between the buyer and seller of the ETO through the market. The premium for an equity option is quoted on a cents per share basis so the dollar value payment is calculated by multiplying the premium amount by the number of underlying shares (usually 1000). For example, if you buy a call option with a premium quoted at 25c per share, the total premium will be \$250.00 (being \$0.25 x 1,000). The premium for an index option is calculated by multiplying 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.

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

For ETOs, market expectations and ultimately, the pressures of supply and demand determine the value of options.

Time Value

Time value represents the amount an investor is prepared to pay for the possibility that the market might move in their favour during the life of the option.

The amount of time value will depend on whether the option is in-the-money (ITM), at-the-money (ATM) or out-of-the-money (OTM). At any given time, the ATM option will have the greatest time value. The further ITM or OTM the option is, the less time value it has.

- A call option is said to be ITM where the exercise price is less than the share price.
- A call option is said to be ATM where the exercise price equals the share price.
- A call option is said to be OTM where the exercise price is greater than the share price.
- A put option is said to be ITM where the exercise price is greater than the share price.
- A put option is said to be ATM where the exercise price equals the share price.
- A put option is said to be OTM where the exercise price is less than the share price.

An option's time value is affected by the following factors:

Time to expiry - the longer the time to expiry, the greater the time value of the option. Time value declines as the expiry of the option draws closer. This erosion of time value is called time decay. It is not constant, but increases rapidly towards expiry.

Volatility - in general, the greater the volatility of the underlying asset, the greater the time value will be. This is due to the fact that the writer is exposed to a greater probability of incurring a loss, and will require higher premium income to compensate for the increased risk.

Interest rates - an increase in interest rates will lead to higher call option premiums and lower put option premiums, all else being equal. This reflects the cost of funding the underlying shares. The taker of a call option can defer paying for the shares until the option's expiry date, and invest the funds elsewhere during this period. As interest rates rise, more interest can be earned on the funds, so the call option is worth more to the option taker. The effect of an interest rate rise is the opposite for put options, as the taker is deferring the receipt, rather than the expenditure of funds.

Dividends - 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. This is because shares tend to fall in value on going ex-dividend, all else being equal. Anything that leads to lower share prices will make call options less valuable, and put options more valuable.

In practice, option pricing is complex and involves the use of mathematical formulae to calculate the intrinsic and time value of options.

For more information on option pricing, you should refer to the section entitled "Option pricing fundamentals" in the ASX Booklet "Understanding Option Trading. ASX also provides a pricing calculator on the ASX website.

No Dividends or Entitlements

ETOs do not entitle investors to dividends or other entitlements paid by the issuer of the underlying securities, unless the investor exercises the option to become the holder of the underlying securities at or before the relevant date for dividend or entitlement purposes.

Opening an option position

The establishment of a contract is referred to as opening a position.

Once the taker of an ETO has an open position they have three alternatives:

1. The taker can exercise the option.
2. The taker can hold the option to expiry and allow it to lapse.
3. The taker can close out their position by writing (selling) an option in the same series as originally taken and instructing their broker to 'close out' the earlier open position.

The writer of an ETO has two alternatives:

1. 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 writer); or
2. Close out the option by taking (buying) the option in the same series as originally taken (provided it has not been exercised against).

Closing out of option contracts

An ETO position may be 'closed out' by placing an order equal and opposite in effect to your original order – this effectively cancels out the open position. An investor would close out an option contract:

- when there is a risk of unwanted early exercise (unless an index option as they can only be exercised on expiry day)
- to take a profit
- to limit a loss.

It is important that you advise us if you are seeking to close out an existing position when placing your order. Closing out can be achieved without reference to the original party to the trade because of the process of novation. The Clearing House is able to substitute a new buyer/seller as the contract party when an existing buyer sells to close their position. The process of novation is discussed in more detail below in the section entitled "Trading and clearing options".

Expiry

ETOs have a limited life span and every option within the same series, which has not already been exercised, will expire on the expiry day. The expiry day is a standard day set by the ASX. For ETOs the option expires on the Thursday preceding the last Friday in the month, as long as both the Thursday and Friday are business days. Therefore if the last day of the month is a Thursday the option will expire on the Thursday prior. For index options, expiry is usually the third Thursday of the contract month. Expiry day information is available on the ASX website.

Exercise

Option takers make the decision to exercise the option contract. This means that an equity option writer may be exercised against at any time prior to expiry. The Clearing House will "randomly" allocate a writer for every exercised taken position. This means that if the taker wants to exercise the options and either buy or sell (depending on whether it is a call or a put) at the predetermined price then ASX randomly allocates a writer of that option and allocates the exercise against them. The writer must then sell the shares at a predetermined price for a call or sell the shares at the predetermined price for a put. The taker of an option will generally only exercise for a profit and therefore the exercise may result in a loss to the writer of the option, depending on their initial costs. Once a writer has been allocated, the writer loses the opportunity to close their position and must effect the delivery or cash settlement obligations for the particular equity option contract.

Automatic exercise

If you trade ETOs with us, we will automatically exercise your taken ETO contract if your contract is more than 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.

This arrangement aims to protect you in case you fail to instruct us to exercise your position or close out the spread and will take advantage of any intrinsic value remaining in that position. It is your responsibility to instruct us if you do not wish to exercise in the money positions by no later than 4.15pm Australian Eastern Standard Time. Please note that fees and charges may exceed the benefit from exercise of an option.

You acknowledge that this will affect all your ETO positions and not only those that are part of a spread strategy.

If you are exercised you will need to provide us with either the underlying security or cash on the day of exercise. In the event you fail to complete, under the ASX Market Rules, a contract for the transfer of underlying securities or funds following the exercise of an open option contract, we may:

- Enter into one or more transactions to effect the close out of one or more open option contracts in accordance with the ACH Clearing Rules;
- Exercise one or more options in accordance with the ACH Clearing Rules Schedule; or
- At your risk, buy/sell or otherwise deal in any securities or withhold any monies and (if applicable) apply the proceeds after deducting costs to satisfy your financial obligations to us; and
- At our sole discretion, dispose of any or all of your securities with the clearing member and apply the proceeds against the default.

You must account to us as if these actions were taken on the instruction of you, and without limitation, you are liable for any deficiency and are entitled to any surplus, which may result.

You should review and understand both our "Terms and Conditions" and our "Client Agreement for Exchange Traded Options" which are available from our trading website so that you are aware of your obligation when trading ETOs and our rights with regard to the treatment of your ETO account including what we may do in the case of default.

Settlement

Payment for, and the delivery of underlying securities, on exercise of an open ETOs contract occurs via the ASX's Clearing House Electronic Subregister System (CHES) on T+3 (that is, within three days from the time the trade occurred). We are obligated to make payment to the ASX within this timeframe. For cash settled index options, a cash settlement amount calculated having regard to the opening price index calculation on expiry day, is paid to exercising takers on the day following the expiry date. The level used for settling index options is determined by a special formula. If you intend investing in index options you should take the time to understand

these arrangements. For more information on settlement of index options see the ASX Booklet “Understanding Options Trading” section on ‘Trading index options’.

We require that you settle any shortfall 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. You are required to pay the shortfall in margin amounts we call from you within 24 hours of being advised of the margin amount by us.

Strategies and third party arrangements

We allow clients to perform different ASX approved strategies, which may include Buy and Write strategies, buying puts and calls. Whilst we may make these strategies available, you should be aware of the associated risks that may apply with them. For more information on possible trading strategies we refer you to the ASX Booklet entitled “Understanding Options Strategies” available on the ASX website.

If you use a third party (such as a Margin Lender) to facilitate the trading and settlement of options, you should be aware of any procedures that they may adopt that are different to our own. The third party will be able to inform you of any specific procedures.

Benefits of ETOs

ETOs have a number of advantages and include:

- Risk management where investors can hedge (protect) their share portfolio from a drop in value. Put options allow investors holding shares to hedge against a fall in the share price;
- Shareholders can earn income by writing call options over shares they already hold. As a writer of options, the investor will receive the premium amount up front. The risk is that the writer may be exercised against and be required to deliver their shares to the taker at the exercise price.
- By taking a call option, the purchase price for the underlying shares is locked in. This gives the call option holder time to decide whether or not to exercise the option and buy the shares. The holder has until the expiry date to make his/her decision. Likewise the taker of a put option has time to decide whether or not to sell the shares;
- ETOs benefit from standardisation and registration with a clearing and settlement facility which reduces counterparty default risk. This process provides the benefit that the client’s position can be closed out without reference to the original counterparty and the client’s risk to that counterparty is transferred to the Options Clearing House;
- Speculation, where the flexibility of entering and exiting the market prior to expiry, 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;
- Options do not require a rising market to make money, rather 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;
- 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;
- Given the lower initial outlay attaching to options, investors can diversify their portfolios and gain a broad market exposure over a range of securities or the index itself.

Example – Exchange Traded Options

Scenario 1 - Income

You are the holder of Share A and you wish to supplement your dividend income. You decide to write a call option.

The current market price for Share A is \$8.72

You write a November Share A call option with an exercise price of \$9.02. The premium payable to you for the option is \$0.98. The total premium payable to you is \$980.

The price of the Share A has steadily fallen and at expiry, Share A is trading at \$8.47. The call option is not exercised but you have received \$980 by way of premium received for writing the option.

Scenario 2 - Speculation

You believe that Share A will rise in value considerably in five months time. In June, Share A is trading at \$9.58 and you believe that at the end of November, Share A will be trading at \$10.42. A November Share A call option with an exercise price of \$9.47 costs \$0.38. You decide to purchase 1 November Share A call option.

$$\begin{aligned}\text{Premium payable for the November Share A call option} &= \$0.38 * 1000 \\ &= \$380\end{aligned}$$

In November, the price of Share A has risen to \$10.82. You exercise the call option and receive 1000 Share A shares for \$9.47. You immediately sell the shares at the market price.

$$\begin{aligned}\text{Your profit} &= [\$10.82 - \$9.47] * 1000 - \$380 \\ &= \$970\end{aligned}$$

Scenario 3 - Hedging

You own 1,000 Share A 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 Share A June \$8.98 put option for \$0.67 (\$670). The price of Share A does fall to \$7.97 prior to the expiry date and you decide to exercise your put option. In exercising the put option, you protected yourself and have reduced the impact of the fall in the share price of Share A by:

$$[8.98 - 7.97] * 1000 - 670 = \$340$$

Scenario 4 - Leverage

Buying call options allows you to profit from an increase in the price of the underlying shares. Suppose you believe Share A shares will rise in price over the next few months. You don't want to pay the full \$5,570 to buy 1,000 shares so you decide to take a September \$5.50 call option for 40 cents (\$400 plus fees and commissions). If you are correct and the price of Share A shares rises then the value of your option will also rise. You can then write an equivalent call option to close out at any time prior to the expiry day and take your profit. You will not have to buy the Share A 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 in September. When you take a call option, the most you can lose is the premium you have paid in the first place.

Risks of ETOs

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

You should only trade ETOs if you understand the nature of the products and the extent of your exposure to risks. The risks attached to investing in ETOs will vary in degree depending on the option traded.

This PDS does not cover every aspect of risk associated with ETOs. For further information concerning risks associated with ETO trading you are referred to the ASX booklet "Understanding Options Trading" and in particular the section entitled "Risks of option trading" (the booklet can be found on the ASX website).

ETOs are not suitable for some retail investors, for example investors who have a low risk tolerance should not enter into ETO trades which have the potential for unlimited losses. When deciding whether or not you should trade ETO contracts, you should be aware of the following matters relating to risk:

- The high level of leverage that is obtainable in trading ETOs (due to the low level of initial capital outlay) can work against an investor as well as for the investor. Depending on the market movement, the use of leverage may lead to large losses as well as large gains;
- ETOs 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;
- ETOs are subject to movements in the underlying market. Options may fall in price or become worthless at or before expiry;
- The maximum loss in taking (buying) an ETO is the amount of premium paid. If the option expires worthless, the taker will lose the total value paid for the option (the premium) plus transaction costs;

- Whilst writers (sellers) of ETOs earn premium income, they may also incur unlimited losses if the market moves against the option position. The premium received by the writer is a fixed amount; however the writer may incur losses greater than that amount. For example, the writer of a call option has increased risk where the market rises and the writer does not own the underlying shares. If the option is exercised, the writer of the option is forced to buy the underlying shares at the current (higher) market price in order to deliver them to the taker at the exercise price. Similarly where the market falls, the writer of a put option that is exercised is forced to buy the underlying shares from the taker at a price above the current market price;
- Writers of options could sustain a total loss of margin funds deposited with us. In addition, the writer may be obligated to pay additional margin funds (which may be substantial) to maintain the option position or upon settlement of the contract. Margining is discussed below;
- Under certain conditions, it could become difficult or impossible to close out a position. For example, this can happen where there is a significant change in price over a short time period;
- The ASX and its Clearing House have discretionary powers in relation to the market. 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;
- The placing of risk minimisation orders may not always limit an investor's losses to the amounts that are expected. Market conditions may make it impossible for us to execute the risk minimisation orders. Strategies using combinations such as 'spreads' or 'straddles' may be as risky as taking a simple 'long' or 'short' position;
- Trades affected 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 we amend or cancel a trade, which will in turn result in the contract with the client being amended or cancelled;
- We have the ability to amend or cancel a trade as stated in our Trading Terms and Conditions and any Confirmation / Contract Note issued. This could cause you to suffer loss or increase your loss;
- Trades affected on the ASX are traded on an electronic trading platform and cleared through the Clearing House. 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; and
- Investors should review and understand both our "Terms and Conditions" and our "Client Agreement for Exchange Traded Options" which are available from our trading website so that they are aware of their obligation when trading ETOs and our rights with regard to the treatment of your ETO account including what we may do in the case of default.
- Australia, as a member state of the United Nations, is obliged to implement United Nations Security Council sanctions. Australia also may be required to implement other international sanctions and sometimes imposes unilateral sanctions. Sanctions can cover various subject matters including financial restrictions. Consequently, the Bank may be prohibited from dealing with certain persons or entities.
This means that if the Bank is aware that you are a proscribed person or entity, then the Bank may be required to suspend, cancel or refuse you services or close or terminate any account, facility, transaction, arrangement or agreement with you.
We may also be required to freeze your assets. You could incur significant costs as a result of these actions.

Costs and amounts payable associated with trading ETOs

Part B of this PDS contains information on the commission, brokerage and exchange fees attaching to ETOs.

Our primary source of income is from the brokerage paid on transactions made through our services – up to 0.55% for brokerage on ETOs. ACH fees of \$1.12 per contract also apply for ETOs, and \$0.55 per contract exercise fee. In the case of index options, ACH charges \$0.39 per contract including GST, for both the transaction fee and the exercise fee.

We charge our brokerage fees on the purchase and sale of executed transactions made through your account. We will deduct any government charges from the proceeds of a sale or add applicable government charges to the purchase price of an order you make.

Minimum brokerage rates apply depending on the total consideration of the contract and additional administration fees may also apply in certain circumstances.

Whenever you use our service, we may remit a referral commission (up to 18% of the brokerage value for equities and derivatives transactions) to a recognised referrer on the brokerage charged for your use of our service.

Our brokerage fees may vary depending on the cash account balance you may have with us, the type of market information you request, the level of service you require and the frequency of your executed transactions.

Our brokerage fees are included on our contract notes and cover various expenses we incur to deliver the services as well as a profit component. You may find further information about our products, services and fees through our trading website.

We are also required to maintain a trust account on your behalf to hold funds that are used for your share trading account. We will retain any interest that may be earned on this account.

Margins

The Clearing House calculates margin amounts using a system known as TIMS (Theoretical Intermarket Margining System). Writers of options will be obligated to pay margin.

Margins are generally a feature of all exchange traded derivative products and are designed to protect the financial security of the market. A margin is the amount calculated by the Clearing House as necessary to cover the risk of financial loss on an options contract due to an adverse market movement. This means that if the price of your options moves against you, you will be asked to pay a margin which represents that adverse movement.

Total margin for ETOs is made up of two components:

- Premium margin – this is market value of the particular position at the close of business each day.
- Risk margin – this is the potential change in the price of the option contract assuming the maximum probable inter-day price move in the price of the underlying security or index. In times of extreme volatility an intra day margin call may be made by the Clearing House and as a consequence, we may request that you pay this on the same day.

We may call more margin from you, compared to the amount that it is obligated to be paid to the Clearing House – we do this as a risk management tool.

Clearing House margin obligations may be met by paying cash or by providing certain types of eligible collateral (eg. shares and bank guarantees). Clearing House applies a 'haircut' in relation to the value of such collateral as a risk management tool, eg. Clearing House generally values collateral held by it at 70% of its full value. This means that if the shares used by you as collateral have a market value of \$10,000 only \$7,000 will be counted as collateral cover for your margin calls.

Margin must be paid by you within 24 hours of you being advised of the margin call by us. The margining process used by Clearing House is explained in detail in the ASX booklet "Understanding Margin Obligations" which is available on the ASX website. Please note that third party providers such as Margin Lenders may impose other requirements.

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 us. All interest received by us from the ACH for client cash covered margins, is distributed by us to clients at the end of each month. The ACH calculate interest daily on a simple interest basis at a rate equal to the short term or 11am interest rate, less a 0.50 percent administrative fee.

Other significant characteristics of ETOs

Trading and clearing options

ETOs 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.

We are licensed to execute ETOs on the ASX's trading platform and to clear them through the Clearing House and will abide by the trading and settlement terms described in both our "Terms and Conditions" and our "Client Agreement for Exchange Traded Options" which are available from our trading website.

The Clearing House stands between the buying and selling brokers (the ASX participants) and guarantees the performance to each of them. This process is known as 'novation'. Importantly the Clearing House does not have an obligation to you, the underlying client. The rules of the ASX's equities clearing house govern arrangements once a deliverable ETO has been exercised.

Client Trust Accounts and collateral

In order for us to trade an ETO contract for you, we require you to provide us with money or collateral to enable us to manage the risks associated with our dealings for you in ETOs. Client money and collateral paid or given by you in connection with our dealing in ETOs must be held by us in trust in accordance with the Corporations Act and the ASX rules.

Money is held on trust for you in a trust account, however, this does not apply to money paid to reimburse us for payments we have had to make to the Clearing House (generally margin calls) in respect of dealings for you. The Corporations Act provides that money held in the trust account can be used for specific purposes such as meeting margin obligations, guaranteeing, securing, transferring, adjusting or settling dealings in derivatives.

CHESS securities (held by you) may be lodged in your name with the Clearing House as collateral for margin obligations relating to option trades. When CHESS securities are lodged with the Clearing House, the securities are held by the Clearing House as a 'third party security'. The lodged securities 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 third party collateral. Shares in a client's superannuation fund cannot be used as third party collateral for any other account.

National Guarantee Fund

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

1. If a stock 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 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 www.segc.com.au.

Significant taxation implications

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

The taxation information provided below is intended as a brief guide only and does not cover every aspect of taxation related with the use of ETOs. The information applies to Australian resident investors only. It is important to note that your tax position when trading ETOs will depend on your individual circumstances, in particular whether you are trading on revenue or capital account (refer below for further discussion).

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

Implications for Australian Resident Investors

Revenue Account

Writer of the Option

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

The premium received by the writer of the option will be assessable on a due and receivable basis. Where any premium is credited to the writer's 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 writer into their Clearing House account. These margins will merely reduce any net position of the writer upon the close-out, settlement or exercise of the option by the taker.

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

Taker of the Option

A taker will generally hold an option on revenue account when it is held or traded in the ordinary course of business, or the option is used to hedge an underlying revenue asset.

Where this is the case, any premium paid by the taker is generally regarded as being deductible on a due and payable basis. This will generally be at the time the option is entered into.

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

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

Capital Account

Writer of the Option

Where a writer writes an option over an underlying capital transaction, the option will be held on capital account. Consequently, any income tax implications will be determined in accordance with the Capital Gains Tax ("CGT") provisions.

The premium received by the writer of the option will give rise to an assessable capital gain on a received or a receivable basis. Where any premium is credited to the writer's Clearing House account the amount will still be assessable on this basis.

Any subsequent margin calls will merely reduce any net position of the writer upon the close-out, settlement or exercise of the option by the taker.

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

Exercise of a Call Option

Where a call option is exercised, the option premium and the proceeds on the sale of the underlying asset should be treated as a single transaction. Accordingly, both the premium and the proceeds received will form part of the writer's capital proceeds for CGT purposes.

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

Exercise of a Put Option

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

This may have practical implications for writers' of options where the premium is received in a different financial year to the payment of the strike price and acquisition of the underlying capital asset.

Taker of the Option

A taker will generally hold an option on capital account where an underlying capital transaction is being hedged. Consequently, any income tax implications will be determined in accordance with the CGT provisions.

At the time the premium is paid, there are no taxation consequences for the taker in respect of any premium paid for options which are held on capital account.

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

When an option is settled or closed-out, the taker will realise a capital gain or loss depending on the amount paid (being the premium plus any incidental costs) for the option and the amount received on settlement.

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 taker.

Exercising a Put Option

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

Goods and Services Tax

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

Placing an order or updating your personal details

You can provide your transaction instructions by telephone or through our trading website. All transactions are governed by our Terms and Conditions which are maintained on our trading website. You can update most of your personal details through our trading website. In some instances, we may require you to provide us with written confirmation of changes to your personal details for security or regulatory reasons.

Customer information and privacy

Collection and verification of customer information

"Customer information" is information about a customer. It includes personal information.

The law requires us to identify our customers. We do this by collecting and verifying information about you. We may also collect and verify information about persons who act on your behalf. The collection and verification of information helps to protect against identity theft, money-laundering and other illegal activities.

We use your customer information to manage our relationship with you provide you with the products and services that you request from affiliated providers and external providers for whom we act as agent.

The collection and verification of customer information may be carried out in different ways and we will advise you of the most acceptable methods of doing this. We may disclose your customer information in carrying out verification – e.g. we may refer to public records to verify information and documentation, or we may verify with an employer that the information you have given us is accurate.

Depending on whether you are an individual or an organisation, the information we collect will vary. For instance, if you are an individual, the type of information we may collect and verify includes your full name, date of birth and residential address. If you are commonly known by 2 or more different names, you must give us full details of your other name or names.

If you are a company, we may collect and verify information, including company incorporation and registration details, as well as details of the company's officers and its major shareholders.

If you are acting as a trustee, we may ask you for, amongst other things, information on the beneficiaries of the trust and evidence of the existence of the trust.

If you are a partnership, we may require information including evidence of the fact that the partnership exists, as well as the full name of the partnership, the names of the partners and any business name owned by the partnership.

For other organisations, the kind of information we collect and verify will depend on the type of organisation you are.

In addition, during your relationship with us, we may also ask for and collect further information about you and about your dealings with us.

You must provide us with accurate and complete information. If you do not, you may be in breach of the law and also we may not be able to provide you with products and services that best suit your needs.

Protecting customer information

We comply with the National Privacy Principles as incorporated into the Privacy Act 1988 (Cth).

As a member of the Commonwealth Bank Group ("Group") we may disclose customer information to other members of the Group where required by a regulation or law. We may also disclose information to members of the Group who provide support functions in our service offering to you.

Other disclosures

At common law, we are permitted to disclose customer information in the following circumstances:-

- (a) where disclosure is compelled by law; or
- (b) where there is a duty to the public to disclose; or
- (c) where our interests require disclosure; or
- (d) where disclosure is made with your express or implied consent.

So that we can manage our relationships, customer information may be disclosed to:

- brokers and agents who refer your business to us;
- any person acting on your behalf, including your financial adviser, solicitor, settlement agent, accountant, executor, administrator, trustee, guardian or attorney;
- financial institutions who request information from us if you seek credit from them; and
- organisations to whom we may outsource certain functions.

In all circumstances where our contractors, agents and outsourced service providers become aware of customer information, confidentiality arrangements apply. Customer information may only be used by our agents, contractors and outsourced service providers for our purposes.

We may be required to disclose customer information by law, e.g. under Court Orders or Statutory Notices pursuant to taxation or social security laws or under laws relating to sanctions, anti-money laundering or counter terrorism financing.

We may send customer information overseas if:

- that is necessary to complete a transaction, or
- we outsource certain functions overseas.

We may also be permitted, as distinct from required, to disclose information in other circumstances. For more information, please refer to our Privacy Policy.

Access to your personal information

The law allows you (subject to permitted exceptions) to access your personal information. You can do this by contacting:

Customer Relations

Reply Paid 41

Sydney NSW 2001

We may charge you for providing access.

Further information

For further information on our privacy and information handling practices, please refer to our Privacy Policy, which is available upon request from us.

Disputes, Complaints or Suggestions

We value your business and are continually improving the service to our clients. If you have any suggestions on how our services can be improved, if you have a concern or complaint, or if you would like to compliment us on our service you may take one of the following steps:

Mail PO Box 7428 Cloisters Square, PERTH, WA 6850

Telephone: 1300 360 892 or +61 8 9282 8580 (between 8am and 7pm AEST Mon-Fri)

Email: cso@ausiex.com.au

Fax: +61 8 9321 1553

A copy of our Complaints Handling Policy is available on request by contacting us as above. A response will be prepared to ensure all matters you raise are investigated and responded to fully.

We are a member of the Financial Ombudsman Service Ltd. The Financial Ombudsman Service (FOS) is the dispute resolution scheme authorised to deal with complaints in relation to life insurance, superannuation, funds management, financial advice, investment advice and sales of financial or investment products. The FOS is contactable at PO Box 3, Melbourne VIC 3001 telephone 1300 780 808 or fax (03) 9613 6399.

In the event you are still not satisfied, the Australian Securities and Investment Commission has a toll free line on 1300 300 630 which you may use to lodge a complaint and obtain information about your rights.

Part B – ETO Fee Schedule

All prices are inclusive of GST.

Sanford Brokerage Rates ¹	
Internet Originated	
- Exchange Traded Options (ETOs) (including Online Covered Calls)	\$38.45 or 0.55% ²
Phone Originated	
- Option Exercised/Assigned (includes Margin Lending ³)	\$43.95 or 0.11% ²
- Exchange Traded Options - Buy Write ETO – Margin Lending ^{3,4}	\$43.95 or 0.55% ²

Frequent Trader Brokerage Rebates and Information Services			
	Casual	Premium	Professional
Internet ETO orders only	Nil	\$5.50 rebate for 11th and subsequent trades p/mth	\$10.50 rebate for 11th and subsequent trades p/mth

Additional Services available to Professionals when using the Trading Pro application	
Service	Monthly Price
Dynamic Options Pricing with market depth through Trading Pro	\$11

Other Administrative Fees	
Service	Price
Emailing of Contract Notes	Free
Postage of Contract Notes	\$3.85
Order Amendments and Cancellations	Free
Alert Block Credits (11c per email alert and 22c per SMS alert)	Avail in \$11 & \$22 credit blocks
Australian Clearing House fees (for Exchange Traded Options)	\$1.12 per contract
SRN (Issuer Sponsored Shares) registry request	\$16.50
Stop Payment on Cheques and Dishonoured Cheques	\$16.50 each
Processing of cheques we send you	\$10 each
Special answer, clearance or search requested by you requiring manual work (min 1 hour)	\$60 per hour or part thereof
Off Market Transfers	\$55 per stock or fund
Fail Fees (Failure to settle trade within the required time)	\$55 or 0.16% per day ²
International Funds Transfer	\$27.50
Urgent Funds Transfer	\$10

¹ Brokerage is available for Casual, Premium and Professional clients.

² Whichever is greater.

³ Plus \$27.45 administration fee.

⁴ An Exchange Traded Option contract is a contract to buy or sell underlying securities in a predetermined quantity, usually of 1000 units, at a predetermined price on, or before, a predetermined date. A \$1.12 Australian Clearing House fee per contract is applied for ETO transactions, and \$0.55 per contract exercise fee. In the case of index options, ACH charges \$0.39 per contract including GST, for both the transaction fee and the exercise fee.