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# CommSec Exchange-Traded Options

Product Disclosure Statement



CommSec

Issue Date: 27 June 2025

### **Important Information**

Commonwealth Securities Limited ABN 60 067 254 399 AFSL 238814 (CommSec) is a wholly owned but non-guaranteed subsidiary of the Commonwealth Bank of Australia ABN 48 123 123 124 AFSL 234945. CommSec is the issuer of this Exchange Traded Options Product Disclosure Statement (PDS) and a Market Participant of the Australian Securities Exchange Limited (ASX) and CBOE Australia Pty Ltd, a Clearing Participant of ASX Clear Pty Limited (ASX Clear) and a Settlement Participant of ASX Settlement Pty Limited.

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### **Products offered by this PDS**

This PDS covers Exchange Traded Equity and Index Options that are traded on the ASX and settled and cleared by ASX Clear. Exchange Traded Equity Options are Options on quoted shares (or other securities) of a select group of stock exchange listed companies. Exchange Traded Index Options are Options on a select group of stock exchange indices. Throughout this PDS, Exchange Traded Equity and Index Options that can be traded through CommSec on the ASX are collectively referred to as Exchange Traded Options (or ETOs or Options).

This PDS does not cover Low Exercise Price Options (LEPOs) traded on the ASX, debt Options, foreign currency Options, Options traded on US exchanges or over the counter (OTC) Options.

A complete list of companies and indices over which Options are traded in Australia on the ASX can be found on the ASX website.

This PDS is designed to help you understand the characteristics, risks and benefits of ETOs and how you can use CommSec to trade Options on the ASX. This PDS includes features about the CommSec (the Participant, we, us, our) ETOs product, the fees that apply, the benefits and risks of the product, tax treatment and other information that you should consider prior to trading.

This PDS has been prepared without taking account of your objectives, financial situation or needs. For that reason, before acting on the information in this PDS, you should consider its appropriateness to your objectives, financial situation and needs, and if necessary seek appropriate professional advice. Trading Options can involve considerable risks. For that reason, you should only trade Options if you understand the nature of the product (especially your rights and obligations) and the extent of the risks you are exposed to. Before trading, carefully consider this PDS and the relevant booklets regarding Options from the ASX. You should also carefully assess your experience, investment objectives, financial resources, and other relevant issues.

### **Changes to this PDS**

Changes to this PDS will be available from the CommSec website. Alternatively, a paper copy of the updated information can be obtained by contacting CommSec Options support on 13 15 19 between 8am and 6pm (Sydney time) Monday to Friday. Certain changes may require us to issue a new or supplementary PDS. In such circumstances, we will post the new or supplementary PDS to the CommSec website and notify you by publishing an announcement to CommSec Site News. Alternatively, you can ask for a paper copy of the PDS or any of the documents referred to in the PDS, at no charge to you, by contacting us on 13 15 19.

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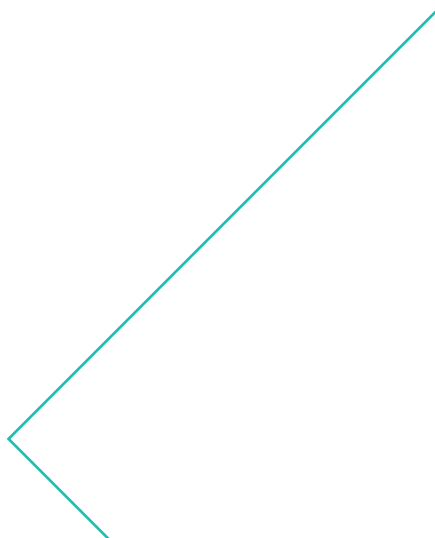
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# Discover A New Way to Trade

CommSec provides you with access to Exchange Traded Equity and Index Options that are traded on the ASX and settled and cleared by ASX Clear. Exchange-traded Options (or ETOs or Options) are a versatile financial tool that you can use to:

- Protect your portfolio.
- Profit from market movements, even when the market is falling or flat.
- Earn extra income from your shares.
- Increase your returns through leverage.
- Diversify your portfolio.

Options derive their value from an underlying security, such as a share or an index. That makes them a flexible alternative to direct investing, giving experienced investors access to a range of strategies that might otherwise be unavailable.

## WHAT IS AN OPTION?

An Option is a contract between two parties giving the taker (buyer) the right, but not the obligation, to buy or sell a security, such as a share or index, at a specified price on or before a predetermined date. The writer (seller) of the Option has an obligation to fulfil the requirements of the contract, if called upon by the buyer to do so. To acquire this right, the taker pays a premium to the writer of the contract.

A Call Option gives the taker the right, but not the obligation, to buy the underlying shares, while a Put Option gives the taker the right, but not the obligation, to sell them.

Index Options work in a similar way. The taker of an index Option has the right to receive a cash payment if a share market index reaches a specified level (expressed in points) on a predetermined date.

Option writers are required to supply shares or cash as collateral. A naked position is one that is not specifically hedged.

ETOs can be American or European exercise style. Most ASX Options are American-style, which means that they can be exercised at any time prior to the expiry day. European-style exercise Options, which include index Options, can only be exercised on expiry day.

ETOs are either deliverable or cash settled. Most exchange-traded equity Options are deliverable, which requires the physical delivery of the underlying security when exercised. Exchange-traded index Options, on the other hand, are cash settled, which means cash settlement is required when they are exercised.

Option orders placed through CommSec are entered into the market for the remainder of that trading day only (good for a day).

## THE BENEFITS OF TRADING OPTIONS

<b>Profit from your view</b>	Profit when your view of future market movements proves correct. Options give you the potential to profit in rising, falling and flat markets, using a range of strategies with varying levels of risk.
<b>Earn income</b>	Sell Call Options over shares you already own and receive the premium immediately. Remember, if the Option is exercised you may be forced to sell the shares at the exercise price.
<b>Manage risk</b>	Use Options to hedge (or protect) your portfolio from a drop in value of a share or the market, by taking a Put Option to lock in the value of your shares.
<b>Diversify with leverage</b>	Diversify your portfolio and achieve a broader market exposure with a lower initial outlay than buying shares, potentially increasing your profits. Leverage can multiply your profits, but it can also multiply your losses if your view of the market proves incorrect.
<b>Gain time to decide</b>	Options lock in the price of a share. If you are the taker of a Call Option, you have time to decide whether you want to buy the shares. If you are the taker of a Put Option, you have time to decide whether you want to sell your shares.
<b>Trade in a regulated market</b>	Unlike some other derivatives, Options are standardised and traded through a registered clearing and settlement facility. Not only does that give you greater certainty, it also means that you can close out a position without having to deal with the other party in the original contract.

## THE RISKS OF TRADING OPTIONS

Trading in Options is typically viewed as a risky investment, suitable for experienced investors who have a high tolerance for risk and can access cash or shares to meet margin requirements. If you are a cautious investor, you should be particularly wary of entering into trades that have the potential for very large and unlimited losses – for example, writing uncovered Call and Put Options. Before you apply for an Options account, you are required to read the Risk Disclosure Statement on page 33 of this PDS.

### Significant risks

<b>Limited life</b>	Options have a fixed expiry date, after which they are worthless. Their value can fall rapidly as they approach expiry.
<b>Volatility</b>	Volatility is a measure of the expected amount of fluctuation in the price of the underlying security. The volatility of the price of the underlying security can impact the price or premium of an Option. Generally, the greater the volatility of the price of the underlying asset, the higher the Option premium, all else being equal.
<b>Market movement</b>	Due to the volatile nature of Options prices there may be times where the market price of your Option moves significantly over a very short time. This may affect the price at which you are able to trade.

Difficulty closing positions	When the market moves against you, you may find it difficult to close an Option position if there is a significant change in its price over a short time period.
Interest rates	Changes in interest rates can impact the price of an Option. A rise in interest rates generally lead to higher Call Option premiums and lower Put Option premiums, all else being equal.
Leverage	While leverage can multiply your profits when you invest successfully, it can also multiply your losses when your view of the market proves incorrect.
Taking Options	<p>When you take an Option and do not exercise, the maximum amount you can lose is the premium you pay plus any transaction costs, such as brokerage.</p> <p>Options expiring in the money will be auto-exercised unless you instruct CommSec on the date of expiry to not exercise the Option. Where your Option is auto-exercised, a corresponding share transaction will arise. You are responsible for making sure you have the money or security to settle that transaction.</p>
Writing Options	<p>When you write an uncovered (or naked) <b>Call</b> Option, your potential losses are unlimited if the market moves against your Option position.</p> <p>Although your potential losses when writing a <b>Put</b> Option are limited (since the price of the underlying share can't fall below zero), there is a real risk of substantial losses, given that the market tends to fall more sharply than it rises.</p> <p>To ensure that you can meet the obligations of writing a Call or Put Option, you will be required to pay margins (refer to page 23 of this PDS).</p> <p>As part of its risk management, CommSec conducts stress tests on all written Option positions to assess the impact of changes in market conditions (for example, market moves up; market moves down) on your Options portfolio. These stress tests may result in you being required to provide evidence of ability to meet additional margin requirements if called, or to reduce your exposure which will lead to additional transaction costs (refer to page 23 of this PDS).</p>
Early exercise	Where a Call Option is deep in the money, with little chance of the underlying security falling below the strike price before expiry, the Option is a candidate for early exercise. This generally occurs where the dividend the investor would receive if they were to exercise the call is greater than the interest expense incurred in buying the shares ahead of the expiry date. The writer/seller of the Call Option would therefore be obligated to provide the holder/buyer of the Call Option the underlying security at the strike price including the dividend entitlement. As this generally occurs on the day before the ex-dividend date, if the writer of the Call Option does not already hold the underlying security which they need to provide (that is, they sold a naked call), they will need to purchase the underlying securities with the dividend entitlement attached in a specialised 'cum-dividend' market on the day that the underlying security has gone ex-dividend.

**Adjustments**

If the underlying security for an ETO makes a pro-rata change to its ordinary share capital structure the ASX may make adjustments to the specifications of the ETOs to preserve their total exercisable value. That means that the result of the number of contracts multiplied by the contract size and multiplied by the exercise price is kept as the same total exercise dollar amount before and after the underlying security's ex-date. Changes can be made to contract size, exercise price, expiry date, number of contracts, and even the underlying securities. As such changes can immediately affect important factors such as whether your ETO is 'in' or 'out' of the money, you will need to review all ETO adjustments to ensure that the position still falls within your investment strategy.

**Discretionary powers**

The ASX and ASX Clear Pty Ltd (ASX Clear) have discretionary powers to ensure the maintenance of fair and orderly markets. They can suspend the operation of the market, lift suspensions, restrict exercise, terminate an Option position, substitute another underlying security (or securities), impose position and exercise limits and terminate contracts, which can all affect your position.

**Disputes**

If a trade is subject to dispute, the ASX has the power to require a broker to amend or cancel the trade. A cancellation of a trade could mean that you suffer a loss or that your losses are increased.

**Cancellations**

CommSec reserves the right to amend, cancel, reverse or reject any trade at its sole discretion without notification to you. This could mean that you suffer a loss or that your losses are increased.

**Suspensions**

CommSec may suspend your account at any time and without notice to you if you fail to settle on time for orders we have executed for you.

**System disruptions**

Options orders are entered into and transacted on an electronic trading platform and cleared through ASX Clear. As with all such electronic systems and platforms they are subject to temporary failure and disruption. If the system fails or is disrupted, causing CommSec not to receive your instructions, you may suffer a loss or increased losses. It is your responsibility to monitor whether your instructions have been effected in the market and contact CommSec Options support on **13 15 19 between 8am and 6pm (Sydney time) Monday to Friday**, if any difficulties are experienced.

**Legal**

As Australia is a member state of the United Nations, we are obliged to implement United Nations Security Council sanctions. Consequently, CommSec may be prohibited from dealing with certain persons or entities. This means that if it appears that you are, or act on behalf of, a proscribed person or entity, then CommSec may be required to suspend, cancel or refuse you services or close or terminate any arrangement with you. We may also be required to freeze your assets. You could incur significant costs as a result of these actions.

## Things you need to know – ASX Educational booklets



Before trading Options with CommSec, you are required to read the ASX Understanding Options Trading booklet, which can be found, free of charge, from the ASX website at <https://www.asx.com.au/content/dam/asx/investors/investment-options/options/understanding-options.pdf>.

You can also request for a hard copy of this booklet to be sent to you free of charge, by calling CommSec Options support on **13 15 19 between 8am and 6pm (Sydney time) Monday to Friday**.

We also recommend that you read the information available from the ASX to ensure you have sufficient understanding of how the ASX Options market operates. This information is available free of charge from the ASX website: <https://www.asx.com.au/investors/learn-about-our-investment-solutions/asx-options-knowledge-hub>. The ASX website contains information on the aspects of options trading including types of options, explanation for option adjustments, options strategies, options and margin lending, taxation treatment of options, and options margins.

As Options are both complex and inherently risky, CommSec also recommends that all clients visit the ASX website (<https://www.asx.com.au/investors/learn-about-our-investment-solutions/asx-options-knowledge-hub>) to access important information – including, but not limited to, pay-off diagrams and educational material – prior to placing any order instructions.

All materials referenced within the ASX website are considered to be presumed knowledge for you as a CommSec Options client. As a client, you agree to not enter into any position without first consulting the ASX educational material and fully understanding your position and obligations in their entirety.

### Practical risk management

Below are some simple points to keep in mind when you are investing in Options:

- Options trading can be a valuable tool, but experienced investors know that speculative positions should form only part of a balanced investment strategy.

- When choosing your Options strategy, you need to take into account your potential losses as well as your potential profits, and consider carefully whether the level of risk suits you. For some strategies the maximum risk may be the loss of the premium (plus trading fees), while for others, the loss may be unlimited.
- It's especially important when trading Options to monitor your position carefully, and to take action as required. You can use the CommSecIRESS trading platform or the CommSec website to keep track of your position, the market and the expiry dates of your Options.

Remember that margin requirements can change from day to day, and you need to have collateral available to cover any increases. In addition, based on stress testing results, you may be required to provide evidence of ability to meet additional margin requirements if called, or to reduce your exposure. See Margins and Stress Testing on page 23 for more information.



# Trading Options *with CommSec*

When you trade Options with CommSec, you'll benefit from our online research and investing tools, affordable brokerage and dedicated CommSec Options support. You may also qualify for a complimentary subscription to our advanced real-time trading platform with tools specially developed for Options traders.<sup>†</sup>

## WHY TRADE OPTIONS WITH COMMSEC?

<b>Save on brokerage</b>	Trade Options online from \$34.95.*
<b>Online tools</b>	Trade Options using CommSecIRESS, our dynamic trading platform. <sup>†</sup>
<b>Trade Options online</b>	Place Option strategies online at the click of a button.
<b>Use advanced strategies</b>	Use a wide variety of investment strategies, including covered Calls, protective Puts, naked Calls and Puts, and multi-leg strategies. Use ASX acceptable equities on your linked CommSec Share Trading or CommSec Margin Loan account as collateral when writing Options.
<b>Trade on your margin loan</b>	Write covered Calls over shares bought with a CommSec Margin Loan.
<b>Multi-Leg Orders</b>	Place Multi-Leg Orders online or over the phone. Access to our designated dealing team for best price execution on Multi-Leg Orders.
<b>Options Quote Requests</b>	Request Options quotes online at the click of a button or over the phone with CommSec Options support.

<sup>†</sup> To obtain free access to the CommSecIRESS trading platform, you will need to meet minimum qualification criteria. Call 13 15 19 for details.

\* For online trades up to \$10,000.

**CHOOSE HOW YOU TRADE**

<b>Online on the CommSec website</b>	Do your research, set up Option and share watchlists, monitor your open positions, view previous trading activity, obtain live quotes and <b>trade online</b> on our website.
<b>Online with CommSecIRESS trading platform</b>	To retain free access to the CommSecIRESS trading platform, you will need to meet the minimum qualification criteria. Call <b>13 15 19 between 8am and 6pm (Sydney time) Monday to Friday</b> for details.
<b>Over the phone</b>	Call <b>13 15 19</b> to place orders or get quotes and position updates.

**COMMSECIRESS TRADING PLATFORM**

The CommSecIRESS trading platform offers you essential Options trading tools and more. You'll have access to the same information as a professional Options dealer, so you can respond to market movements as they happen. Key features of the CommSecIRESS trading platform include:

- **Options Market Monitor** provides a detailed view of all Options series over your selected share or index.
- **Options Valuation** gives you a theoretical valuation, with variable fields that make it simple to test different scenarios.
- Dynamic market depth.
- Live tickers.
- Advanced charting tools.
- Right-click trading.
- Customisable worksheets, so you can create a desktop to match your trading style.

**CHOOSE HOW TO SETTLE YOUR TRADES**

You need to meet all Options trade and margin settlements on the very next ASX settlement day after the day your trade has occurred or margins calculated (T+1 basis). Confirmation of the amounts owing for the Options trade and margin settlements may not be provided until the day you are required to pay these amounts.

CommSec, as part of its risk management program, requires you to settle all Options trades through either a Commonwealth Direct Investment Account (CDIA), a Commonwealth Bank of Australia (CBA) Account or a CommSec Margin Loan. If you do not have one of these accounts, you will need to open one. There are some benefits to choosing a CDIA as your preferred settlement account, as outlined below.

<b>Commonwealth Direct Investment Account</b>	<p>A CDIA is a fully-featured cash management account specifically designed for CommSec share traders, allowing you to trade, save and transact, when and where it suits you. CDIA is available to holders of CommSec Share Trading accounts. For further details on the CDIA, visit the CommSec website.</p> <p>To discuss this settlement option please call CommSec Options support on <b>13 15 19 between 8am and 6pm (Sydney time) Monday to Friday</b> or visit the CommSec website.</p>
<b>Commonwealth Bank of Australia account</b>	If you wish to use this option, you must settle your Options trades through any other CBA account that allows direct debiting and crediting.
<b>CommSec Margin Loan</b>	If you write Covered Call Options against shares in your margin loan, you can settle your Options trades through your margin loan account. To discuss this settlement option or to obtain a CommSec Margin Loan brochure please call CommSec Options support on <b>13 15 19</b> or visit the CommSec website.

## TRADING WITH A COVERED CALL MARGIN LOAN OPTIONS ACCOUNT

ASX Clear accepts shares used as security for a margin loan as collateral for Covered Calls where those shares are held on a one-for-one basis. This means that you can buy shares through your CommSec Margin Loan and write a Call Option over those shares through your linked CommSec Options Trading Account.

In the event you want to write Covered Calls over the shares that are used as security for your margin loan, your shares will continue to secure the margin loan as before, but ASX Clear will have the first entitlement to the shares in order to ensure you have met your obligations to the market. This means that if you write a Covered Call Option and it is later assigned, you might be required to provide additional cash or alternative securities to avoid your margin loan going into a margin call.



To find out more about trading Options with a margin loan and a Covered Call Margin Loan Options Account, call CommSec Options support on **13 15 19** between 8am and 6pm (Sydney time) Monday to Friday.

## Tailor Made Combination (TMC) Multi-Leg Orders

TMC multi-leg orders allow you to create custom trading strategies and simultaneously trade a combination of ETOs and/or equities at once. Each component instrument is referred to as a leg and you can create strategies with up to four legs at a time. The strategy will only be executed at the net price specified by you. For more information on TMC Orders and options strategies visit the ASX website <https://www.asx.com.au/investors/learn-about-our-investment-solutions/asx-options-knowledge-hub/investment-strategies>. Upon execution, the brokerage fees and charges incurred on TMC Orders are calculated by accounting for and summing up the brokerage fees and charges applicable to each individual leg of the TMC multi-leg order. This means that each equity leg, traded as part of a TMC order, will be charged fees in accordance with the 'Australian Listed Shares' brokerage fees and charges disclosed in the CommSec FSG, which is available on the CommSec website. The equity leg brokerage fees and charges will be charged to the CommSec Share Trading account linked to the Options account on which the TMC order was placed. Similarly, the ETO brokerage fees and charges for each ETO leg of the TMC order will be charged to the Options account on which the TMC order was placed. Additionally, you will receive a separate equity confirmation note for each equity leg and a separate ETO Trading Statement for each ETO leg of the TMC order.

## YOUR CLIENT LEVEL

Your client level determines which types of strategies you can use, depending on the level of risk involved. As you become more experienced, you can apply to move to a higher client level, so you can learn as you go.

With the higher client levels, you'll be able to use a wide variety of investment strategies, including covered Calls, protected Puts, naked Calls and Puts, and strategies involving multiple Options and Option series.

Options trading levels

Trade*	Client Level			
	Level 1	Level 2	Level 3	Level 4
Buy Calls and Puts to open	✓	✓	✓	✓
Sell Calls to open (full specific cover)	–	✓	✓	✓
Sell Calls to open (non-specific cover using cash or eligible shares as collateral)	–	–	✓	✓
Sell Puts to open (non-specific cover using cash or eligible shares as collateral)	–	–	–	✓

\* Under CommSec’s terms and conditions you may be subject to a limit on the total number of open positions per account at any one time.

OPTIONS TRADING ACCOUNT LEVEL, INVESTMENT OBJECTIVES AND RISKS

Ensure the Options trading level you wish to apply for is aligned to your investment objectives, needs, financial situation and risk appetite.

	Trading authorisation	Characteristics	Likely Investment objectives	Potential financial risks
Level 1	Buying calls & puts to open	Pays premium and fees to buy the right to exercise to buy or sell shares	To hedge or protect value of shares  Speculation – seeking to capitalise on market movements Gain time to decide whether to purchase or sell the shares  Diversifying investment portfolio using leverage	Your risk of financial loss is limited to the premiums and fees you have paid for your bought options. Depending on the strategy used, losses can be substantial.
Level 2	Level 1 + selling specific covered calls	Level 1 characteristics plus receives premium (minus fees) in exchange for entering into a contract to be obligated to sell existing shares already owned if assigned.	Level 1 likely investment objectives plus the opportunity to earn income (options premium)	Your risks of financial loss are limited to the premiums and fees you have paid for your bought option, or the upside in security value foregone when you sell a covered call.
Level 3	Level 2 + selling uncovered options (calls)	Level 1 and 2 characteristics plus receives premium (minus fees) in exchange for entering into a contract to	Level 1 and Level 2 likely investment objectives	Your risks of financial loss include the premiums and fees you have paid for your bought options, the upside in security value

Trading authorisation	Characteristics	Likely Investment objectives	Potential financial risks
<b>Level 3</b>	be obligated to sell shares if exercised. If exercised the seller will be required to buy the underlying shares at the prevailing market price to deliver on their obligation. Seller is also required to pay margins and deposit cash or collateral to cover their obligations.		foregone when you sell a covered call. When selling uncovered calls you can be exposed to material risk, including potentially unlimited leveraged losses from securities increasing in value. Your liability in relation to a written option contracts is not limited to the amount of the margin paid.
<b>Level 4</b> Level 3 + selling uncovered options (calls & puts)	Level 1, 2 and 3 plus receives premium in exchange for entering into a contract to be obligated to buy shares if exercised. If exercised the put seller will be required to buy the shares at the exercise price which may differ to the prevailing market price. Seller is also required to pay margins and deposit cash or collateral to cover their obligations.	Level 1, 2 and 3 likely investment objectives	Your risks of financial loss include the premiums and fees you have paid for your bought options, the upside in security value foregone when you sell a covered call. When selling uncovered calls you can be exposed to material risk, including potentially unlimited leveraged losses from securities increasing in value. When you sell an uncovered put you can be exposed to material risk including leveraged losses limited to the underlying securities decreasing in value to the maximum of zero. Your liability in relation to a written option contracts is not limited to the amount of the margin paid. If the market moves against your position or margins are increased, you may be called upon to pay substantial additional funds on short notice to maintain your position, or upon settlement

**TRADING HOURS**

CommSec’s Options trading support is available from 8am to 6pm (Sydney time), Monday to Friday. All ASX Option orders are good for that trading day only.

Orders can be placed within these hours:

Equity Options	8am to 4.20pm (Sydney time) Monday to Friday
Index Options	8am to 5pm (Sydney time) Monday to Friday

**COOLING-OFF PERIOD**

There is no cooling-off period for Options trading.

**KNOW WHERE YOU STAND**

Once you start trading, CommSec will update your Position and Financial Statement online for every day that you have a position open. The Position and Financial Statement allows you to monitor open positions, as well as margin obligations and settlements that are to be debited from or credited into your nominated settlement account. At the start of each month, CommSec will send you a Monthly Options Statement which summarises your Options account activities for the previous calendar month.

CommSec will also send you a Trading Statement, which is a tax invoice for Options trades, every day that you execute a trade plus a copy of your most recent Position and Financial Statement. You can also use the CommSecIRESS trading platform or the CommSec website to view statements and transactions performed on your account – so you can stay in touch, 24 hours a day.

# How Options Work

## EQUITY OPTIONS AND INDEX OPTIONS

Equity Options are Option contracts over approved securities, while index Options are Option contracts over an approved index. Index Options enable you to take up a position based on your view on the market as a whole, or on the sector covered by a particular index.

### At a glance

	Equity Options	Index Options
Underlying security	Approved securities	Approved indices
Premium	Expressed in cents	Expressed in points
Contract size	Usually standardised at 100 underlying shares (this may change subject to adjustments)	Dollars per index point (usually \$10 per index point)
Settlement	Deliverable	Cash settled
Expiry date	Monthly Options: Usually the third Thursday of the expiry month  Weekly Options: Usually the Thursday of the expiry week  Note: ASX Clear reserves the right to change this date should the need arise.	Monthly Options: Usually the third Thursday of the expiry month  Weekly Options: Usually the Thursday of the expiry week  Note: ASX Clear reserves the right to change this date should the need arise.
Exercise price	Expressed in dollars and cents	Expressed in points

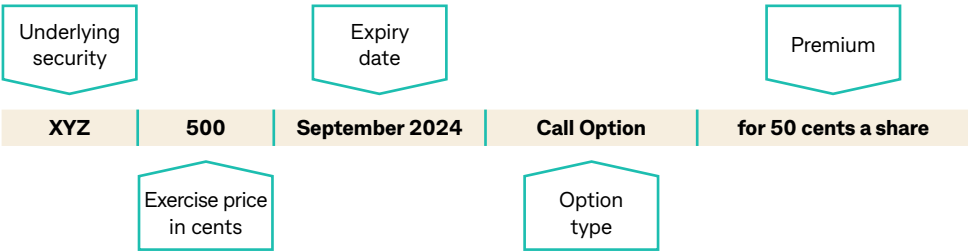
For a complete listing of securities for which Options are available, visit the ASX website at [asx.com.au](https://www.asx.com.au).

### Premiums, exercise and settlement

Three of the most significant differences between equity and index Options are:

- The exercise price and premium of an equity Option are expressed in cents, while the exercise price and premium of an index Option are expressed in points. A multiplier is then applied to give a dollar figure. For example, if the multiplier is \$10 per point and an index Option has a premium of 100 points, the total premium for the Option would be \$1000 (\$10 x 100).
- When an equity Option is exercised, it is settled by delivery of the underlying security, via the linked CommSec Share Trading account while settlement of an index Option is generally by cash payment via the Options account.
- Most equity Options can be exercised at any time up to and including the expiry date (American-style exercise), while index Options can only be exercised on the expiry date (European-style exercise).

KEY FEATURES OF AN OPTIONS CONTRACT



Underlying security	The underlying security is the share or index which can be bought or sold if the Option is exercised.
Contract size	The contract size is typically, but not always, 100 shares per contract over the underlying security. For index Options the contract size is \$10 per index point.
Exercise price	The exercise (or strike) price is the price at which you buy or sell the underlying securities on exercise of the Option.
Expiry date	The date on which all Options in a particular series expire. Index Options cease trading at 12pm on the expiry date. Equity Options continue trading until market close on the expiry date.
Type of Option	Options are either Put or Call Options. These are described below.
Premium	The price of the Option, determined by market forces, and usually quoted on a cents-per-share basis. The Option premium depends mainly on how far the underlying security is from the strike price, as well as how volatile the market thinks the underlying security price will be over the life of the Option. The more volatile the underlying security, the higher the Option premium.

PUT AND CALL OPTIONS

There are two kinds of Options: Puts and Calls. Each operates differently from the perspective of the taker and the writer.

	Writer	Taker
Call Option	Receives a premium from the taker for agreeing to <b>sell</b> the underlying security if exercised	Acquires the right, but not the obligation, to <b>buy</b> the underlying security at the exercise price on or before expiry
Put Option	Receives a premium from the taker for agreeing to <b>buy</b> the underlying security if exercised	Acquires the right, but not the obligation, to <b>sell</b> the underlying security at the exercise price on or before expiry



HOW OPTIONS ARE VALUED

The taker of an Option pays the writer a premium to enter into the Option contract. The writer keeps the premium, whether or not the Option contract is exercised.

The value of the premium is determined by market forces and established in the market between the taker and the writer at the time of a trade.

Premiums are generally quoted on a cents-per-share basis for equity Options and a points basis for index Options. To calculate the total premium for an equity Option, multiply the Option price by the number of shares in the contract.

For example, if an Option contract for 100 shares had a premium of \$0.25 per share, the total premium would be:

$$\begin{aligned} &\$0.25 \text{ per share} \times 100 \text{ shares} \\ &= \$25 \text{ total premium} \end{aligned}$$

Intrinsic value and time value

Option prices are made up of two components, intrinsic value and time value:

$$\text{Option price} = \text{Intrinsic value} + \text{Time value}$$

Here’s how they’re defined:

<b>Intrinsic value</b>	The difference between the Option’s exercise price and the market price of the underlying security.  For example, if XYZ is trading at \$20 a share, and you have taken a Call Option giving you the right to buy XYZ shares for \$19 a share, then your Option has an intrinsic value of \$1.
<b>Time value</b>	The amount a trader is willing to pay for the possibility that the market will move in their favour before the expiry date. Generally time value falls as the Option approaches expiry.

In the money or out of the money

Where the intrinsic value of the Option is positive, the Option is said to be in the money. Options with no intrinsic value are at the money or out of the money.

IF THE EXERCISE PRICE...	is less than the share price	equals the share price	Is more than the share price
A Call Option is...	In the money	At the money	Out of the money
A Put Option is...	Out of the money	At the money	In the money

### Understanding time value

The most important influence on time value is whether the Option is in, at, or out of the money. At-the-money Options have the greatest time value.

Other factors that affect time value include:

- The longer the time to expiry, the greater the relative time value.
- The more volatile the underlying security, the greater the time value.
- When interest rates rise, Call Option premiums will generally increase and Put Option premiums will decrease.
- If a dividend is payable during the life of the Option, the premium on a Call Option will be lower and the premium of a Put Option will be higher.
- During times of strong market demand for Options, premiums will be higher.



To learn more, download the ASX booklet Understanding Options Trading from <https://www.asx.com.au/content/dam/asx/investors/investment-options/options/understanding-options.pdf>

The ASX also provides a range of Options calculators on its website at <https://www.asx.com.au/investors/learn-about-our-investment-solutions/asx-options-knowledge-hub/buying-and-selling/prices-tools-calculators-corporate-actions-and-notices>

## OPTIONS AND THEIR UNDERLYING SECURITIES

Because an Option is a derivative of an underlying security, it is important to understand the relationship between the two. In the case of equity Options, the underlying security refers to the listed shares of an approved company. An Option's price is affected not only by the volatility and market performance of the shares, but also by dividends and corporate events.

### Dividends and entitlements

You are not entitled to dividends or other entitlements paid by the issuer of shares over which you hold Options, unless you exercise the Options to become the holder of the shares before the ex-dividend or ex-entitlement date.

### Corporate actions

When a listed security announces a corporate event that results in some form of capital reconstruction, the ASX may make an adjustment on one or more of the contract specifications of any Options affected. This adjustment is necessary to ensure fairness to both the taker and writer of the Option, since the corporate action has affected the share price while the underlying value of the company may not have changed. The aim is to maintain, as much as possible, the value of Option positions held by takers and writers.

For example, if a company announced a one-for-one bonus issue, the ASX might adjust a \$10 Call Option contract over the company's shares by converting it to two \$5 Call Option contracts.

### Standard and non-standard adjustments

Adjustments that may lead to a change in an Option contract are classified as either standard adjustments or non-standard adjustments.

<b>Standard adjustments</b>	Rights issue, de-merger, cash return to shareholders
<b>Non-standard adjustments</b>	Final payment of instalment securities, special dividend, buy back

Some events that are generally not classified as adjustment events are employee share purchase plans, ordinary dividends and takeover offers. It is important to remember, however, that the ASX reserves the right to determine any adjustment event it deems appropriate.

### Corporate actions must be pro-rata

A corporate action must be a pro-rata event for an adjustment to be made to an Option contract. Pro-rata means that the action affects each individual share proportionally.

For example, a bonus issue of one share for each share held is a pro-rata event and would lead to an adjustment. But an entitlement issue of 100 shares for each shareholder, regardless of the number of shares they hold, would not cause an adjustment, since it is not pro-rata.

### How an adjustment could affect your position

If an adjustment occurs, the ASX can change:

- The number of contracts and contract size.
- The exercise price.
- The underlying security.

Adjustments are generally applied to all open positions in different Option categories or products in the same way.



The ASX publishes contract adjustment notices on the ASX website at <https://www.asx.com.au/investors/learn-about-our-investment-solutions/asx-options-knowledge-hub/buying-and-selling/prices-tools-calculators-corporate-actions-and-notices>

You can also visit the ASX website to download the Explanatory Note for ASX Option Adjustments, which contains additional information regarding adjustments, including details of typical adjustment events and the adjustment process.

# Option Trading, *Step By Step*

## PARTICIPANTS



The Options market is provided and regulated by the ASX and ASX Clear. ASX Clear is a wholly owned subsidiary of the ASX and is responsible for:

- The registration and clearing of all Options traded on the ASX's Options market.
- Overseeing the day-to-day operations of the market.
- Setting standardised Option components and minimum margin requirements.

When you trade Options, you use a broker, such as CommSec. Because CommSec is a participant of the ASX, ASX Clear and ASX Settlement Pty Ltd (ASX Settlement), we can offer you a full range of trading, clearing and settlement services.

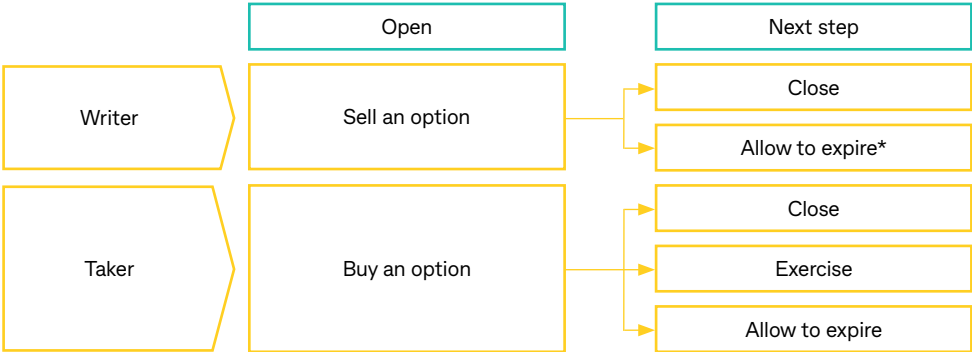
## Market makers

The volume of ETO trades is significantly lower than equities trades, so ASX Group rules ensure liquidity in the market by requiring market makers to provide quotes in particular Option series. This allows traders to trade in and out of a position more easily. Market makers compete against each other and are assigned shares in which they must meet certain obligations, such as quoting buy and sell prices or responding to requests from other market participants for prices. Note, however, that market makers are not obliged to quote on all ETO series all of the time.



For more information about market makers and their roles, please refer to the ASX website at <https://www.asx.com.au/markets/market-resources/market-maker-arrangements/equity-derivatives-market-maker-arrangements>

THE TRADING PROCESS



Opening a position

When you first buy or sell an Option contract, you are opening a position. You can open a position by calling CommSec or placing your order online. CommSec will update your statements online for every day that you have an open position.

THE NEXT STEP

Once you’ve opened a position, your next step depends on whether you are a taker or a writer of the Option, and whether your Option is in, at, or out of the money.

The taker (buyer) can:

- Exercise the Option.
- Allow it to expire.
- Close out the position by selling an Option in the same series.

The writer (seller) can:

- Allow the Option to expire, risking assignment.
- Close out the position by buying an Option in the same series, provided it has not already been exercised against.

Closing a position

An open position is closed when an order is placed that is equal and opposite in effect to the original order. You might choose to close out a position to:

- Take a profit.
- Limit a loss.
- Remove the risk of unwanted early exercise. (Remember that index Options can only be exercised on their expiry date.)

Exercising Options

There are two styles of exercise, American and European. American-style Options can be exercised at any time on or before the expiry date – most ASX Options are American-style. European-style Options can only be exercised on the expiry date and not before. Index Options are European-style.

If you wish to exercise the Option contract, you need to notify CommSec. CommSec will then notify ASX Clear who will randomly determine which writer will be allocated to the trade (assigned). The writer will be required to deliver on the contract, either by delivering the underlying security for an equity Option, or by cash settlement if you are exercising an index Option.

\*assuming no assignment

If you decide to exercise your Option, you must notify CommSec by 4.30pm on a trading day (Sydney time) for it to be exercised on that day.

### **AUTOMATIC EXERCISE**

CommSec will automatically exercise any Call or Put Option (bought to open) that is in the money on the date of expiry by 1 cent or more (for equity Options) or one point (for index Options). When an equity Option is exercised, it is settled via the linked CommSec Share Trading account and it is your responsibility to ensure that you have the cash or security to settle the transaction. When an index Option is exercised, this is cash settled via the Options account.

Even though an Option is in the money, you could still make a loss after taking fees into account. If you do not want to exercise an in-the-money Option, it is your responsibility to notify CommSec by 4.30pm (Sydney time) on the Option's expiry date.

### **Settlement**

When you open or close a position, payment occurs on the first ASX settlement day after the transaction is executed (T+1).

CommSec requires that you settle all amounts due which arise from premiums and other cash transactions within 24 hours of the time the trade occurred. This includes opening an Option position, closing an Option position and paying any margin calls. On exercise, payment for and delivery of the underlying securities occur on the second ASX settlement day after the date of exercise (T+2).

For cash-settled index Options, a cash settlement is paid to exercising takers on the first ASX settlement day after the expiry date.

## A CALL OPTION IN ACTION

The situation > XYZ is trading at \$43.

	Writer	Taker
<b>Market view</b>	Thinks XYZ will fall	Thinks XYZ will rise
<b>Action</b>	Writes XYZ \$43 Call and receives \$1.00 per share	Buys XYZ \$43 Call for \$1.00 per share
<b>If XYZ price rises to \$45</b>	<ul style="list-style-type: none"> <li>Can allow Option to lapse, running the risk of being assigned</li> <li>Can buy XYZ \$43 Call to close the position</li> </ul>	<ul style="list-style-type: none"> <li>Can exercise Option and buy XYZ for \$43</li> <li>Can sell the XYZ \$43 Call to close the position, receiving a premium</li> </ul>
<b>If XYZ price falls to \$41</b>	<ul style="list-style-type: none"> <li>Keeps premium as profit</li> <li>Can buy a XYZ \$43 Call at the prevailing price to close the position before expiry</li> </ul>	<ul style="list-style-type: none"> <li>Can allow Option to lapse</li> <li>Can sell a XYZ \$43 Call to close the position, recouping some of the premium</li> </ul>

## A PUT OPTION IN ACTION

The situation > XYZ is trading at \$43.

	Writer	Taker
<b>Market view</b>	Thinks XYZ will rise	Thinks XYZ will fall
<b>Action</b>	Writes XYZ \$43 Put and receives \$1.00 per share	Buys XYZ \$43 Put for \$1.00 per share
<b>If XYZ price falls to \$41</b>	<ul style="list-style-type: none"> <li>Can allow Option to lapse, running the risk of being assigned</li> <li>Can buy XYZ \$43 Put to close the position</li> </ul>	<ul style="list-style-type: none"> <li>Can exercise Option and sell XYZ for \$43</li> <li>Can sell a XYZ \$43 Put to close the position, receiving a premium</li> </ul>
<b>If XYZ price rises to \$45</b>	<ul style="list-style-type: none"> <li>Keeps premium as profit</li> </ul>	<ul style="list-style-type: none"> <li>Can allow Option to expire</li> <li>Can sell a XYZ \$43 Put to close the position, recouping some of the premium</li> </ul>

All ETO trade examples in this PDS are hypothetical and are provided for illustrative purposes. They are not associated with any existing underlying security.

# What Will It Cost?

As well as the Option premium, trading Options involves costs<sup>1</sup> including brokerage, ETO Contract fees, administration fees and, where applicable, margins. These costs and the frequency of executed transactions (for example options strategies which involve multiple legs or the rolling over of options positions) will impact the profit or loss of an Options transaction and you should consider this before determining whether an options trade is appropriate for you. Please note that brokerage is charged per order, and that orders that are only partially executed before being purged at the end of day will incur a brokerage charge based on the completed volume only. A new order would be required to trade the remaining balance on a subsequent trading day, for which brokerage will also be payable.

## TRADING IN EXCHANGE-TRADED OPTIONS

Trade Execution	Brokerage fee amount <sup>1,2</sup> by transaction value per trade <sup>3</sup>
Exchange-Traded Options traded <b>online</b>	\$34.95 (up to and including \$10,000) 0.35% (over \$10,000)
Exchange-Traded Options traded <b>over the phone</b>	\$54.60 (up to and including \$10,000) 0.54% (over \$10,000)
Exchange-Traded Options subsequent share transaction <sup>4</sup> upon exercise or assignment of the option	\$34.95 (up to and including \$10,000) 0.35% (over \$10,000)

1. Unless otherwise indicated, prices shown in this PDS include GST.
2. Alternative brokerage rates may be agreed from time to time and (if agreed to) will be payable under clause 26 of the General Conditions of Trade.
3. For Options Multi-leg orders, brokerage is charged on each individual Options leg. The execution of an equity leg (an Australian listed share transaction), traded as part of an Options Multi-leg order will incur 'Australian Listed Shares' fees and charges as disclosed in the CommSec FSG.
4. Australian listed share transactions that result from an exercise or assignment of options are charged these brokerage rates. For this reason the brokerage charged on an Australian listed share transaction arising from an exercise or assignment may differ from and overrides the default rates set out in the CommSec FSG for 'Australian Listed Share' trade executions and (the brokerage charged) is disclosed on the Trade Confirmation Contract Note of the share transaction.



**ETO Contract fee (charged per contract)**

Equity Option Contract (Open/Close)	\$0.13 (GST exclusive)
Equity Option Contract (Exercise/Assignment)	\$0.05 (GST exclusive)
Index Option Contract (Open/Close)	\$0.45 (GST exclusive)
Index Option Contract (Exercise/Assignment)	\$0.35 (GST exclusive)

**Other fees and charges (inclusive of GST)**

Option fail fee	\$100 per day
Late settlement fee <sup>5</sup>	\$100
Equity fail fee (assignment and exercise)	\$100 per day
Rebooking fee	\$25 per rebooking

5. Please note that CommSec requires all clients to ensure cleared funds are available to meet settlement obligations. Multiple direct debit rejections may lead to trading restrictions being imposed on your account. A direct debit rejection will be treated as a late settlement.

**HOW TO CALCULATE THE COST OF AN OPTIONS TRADE**

Trade	Buy 50 Contracts of XYZ March \$20 Call Options at \$1
Premium	50 Contracts at 100 shares per contract (50 x 100 shares = 5,000) x \$1 = \$5,000
Brokerage	(Premium below \$10,000) \$34.95 including GST
ETO Contract fees	50 x \$0.13 (excl. GST) = \$7.15 including GST
<b>Total</b>	<b>\$5,042.10</b>

## COMMSECIRESS TRADING PLATFORM SUBSCRIPTION

You can use the CommSecIRESS trading platform to place Options orders online. It is complimentary to CommSec Options traders who are CHESSE sponsored and meet certain Options trading criteria. Please call **13 15 19 between 8am and 6pm (Sydney time) Monday to Friday** for details.

If you don't meet the criteria, you can still access the CommSecIRESS trading platform for a subscription fee of \$82.50 per month

## MARGINS AND STRESS TESTING

Margins are designed to protect the financial integrity of the market and are a tool to manage risks and exposures that arise in connection with writing Options. When you write an Option, you have an obligation to the market if the taker of the Option decides to exercise it.

Margin requirements are calculated on a daily basis. The Margin required is the sum of the amounts that each of ASX Clear and CommSec separately calculate as necessary to ensure that you can meet your obligations to the Market.

<p style="text-align: center;"><b>Total Margin =</b>  <b>ASX Clear Margin + CommSec Margin</b></p>
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### ASX Clear Margin

ASX Clear calculates margin requirements on a daily basis, with the margin calculation performed on your entire ASX Options portfolio. The margin required by ASX Clear (**ASX Clear Margin**) is the sum of:

- the premium margin, which is the amount required to close out your positions based on current market values; and
- the risk margin, which uses daily volatility of the underlying securities to calculate the potential change in the price of the underlying security and the amount required to cover this potential movement.

### CommSec Margin

CommSec will generally require that you provide an additional amount of margin in addition to the ASX

Clear Margin (CommSec Margin) – for example, where CommSec considers that the existing margin is insufficient to cover the risk of your Open Position and having regard to market volatility.

### Meeting Margin Obligation

You can view the total margin required on your Options portfolio on your Position and Financial Statements (sent daily to you while you have an open position) or from the CommSec website and from the CommSecIRESS trading platform.

ASX Clear accepts your collateral as third party security, as you are providing it to ASX Clear as security for the Participant's margin obligations to ASX Clear. Unless you direct CommSec to use eligible ASX-traded securities from your portfolio as collateral, cash will be debited from your nominated bank account or loan facility to provide security for your margin obligations. If you do direct CommSec to lodge securities as collateral to cover margin requirements, CommSec will use eligible ASX-traded securities from your portfolio as collateral to provide security for your margin obligations. Once securities are lodged as collateral to cover margin requirements, they are unavailable for further trading through the online trading facility. Any collateral that has been lodged to cover margin requirements can be released by calling Options support on **13 15 19 between 8am and 6pm (Sydney time) Monday to Friday**. Alternatively, you can log into the CommSec website to lodge and recall shares.

It's important that you monitor your current margin requirements and ensure that they are covered from day to day. When you incur a margin obligation, you are required to provide cash or collateral (or, if CommSec allows it in its absolute discretion, proof that you can supply cash or collateral) to CommSec by 2pm on the trading day after you incur the margin obligations (note that margin calls will usually be made on the trading day following the trading day on which you incur the margin obligations – so you will usually need to meet your margin obligations by 2pm

on the day a margin call is made). Collateral may include ASX-traded securities and shares bought on margin, subject to ASX approval.

ASX Clear will apply a percentage discount (haircut) to the valuation of the securities held as collateral.

CommSec may retain interest paid by ASX Clear on cash provided by you to cover your margin obligations.

Where you cannot provide security by 2pm on the day after incurring a margin obligation please contact CommSec Options support on **13 15 19 between 8am and 6pm (Sydney time) Monday to Friday** as soon as possible.

Failure to meet the margin obligation within the stipulated time may be considered a default of your obligations and CommSec may exercise its rights in those circumstances, including closing your open positions to reduce margins at CommSec's discretion.

For more information about margin requirements and the margining process used by ASX Clear see the ASX Margins booklet available at <https://www.asx.com.au/content/dam/asx/participants/clearing-and-settlement/asx-clear/understanding-margins.pdf>

## Stress Testing

As part of risk management, CommSec conducts stress tests on all Option positions to assess the impact of changes in market conditions and market events on your Options portfolio. Stress testing involves CommSec applying simulation models to then assess how the portfolio would perform if those conditions eventuated. If the result of the stress test exceed the limit set by CommSec, you will be notified of the result by telephone or in writing, and you will be required to, in the time stipulated by CommSec (usually (but not always) by 2pm on the trading day following the notification):

- provide evidence, in a form satisfactory to CommSec, that you have additional securities or cash collateral in your CommSec Share Trading Account or your CBA bank account respectively, which may be used to meet any additional margin obligation if called; or
- reduce your exposure by entering into offsetting positions or closing out open positions (and such transactions will incur additional brokerage and fees).

Failure to take either action above may result in a default of your obligations and CommSec may exercise its rights in those circumstances, including closing your open positions to bring your Options portfolio within the applicable limit for stress testing.

# Other Things You Need to Know

## **SIGNIFICANT TAX IMPLICATIONS**

CommSec does not provide tax advice. The taxation information provided in this PDS is not to be construed as taxation advice and you should consult your own tax adviser or accountant on the tax implications of trading Options.

The taxation information provided below is based on existing tax law and established interpretations as at the date of this PDS. It is intended as a brief guide only and does not cover every aspect of taxation related with the trading of Options or the specific taxation circumstances of each individual investor.

Taxation laws are complex and the tax implications of trading Options may change over time and can vary widely, depending on your individual circumstances and the trading strategies you adopt. You should seek your own independent professional tax advice on the tax implications relevant to your own circumstances before trading Options.

The taxation information below applies to Australian resident investors only.

You may also wish to view a paper on the taxation treatment of Options available on the ASX website at <https://www.asx.com.au/content/dam/asx/investors/investment-tools-and-resources/education/taxation-of-exchange-traded-options-may-2011.pdf>. We do not take any responsibility for the contents of this document and this document should not be substituted for professional taxation advice.

## **REVENUE ACCOUNT**

### **Writer of the Option**

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

Where this is the case, any premium the writer of the Option receives will ordinarily be assessable on a due and receivable basis. On this basis, any premium will be assessable as soon as it is credited to the writer's ASX Clear account.

Any subsequent margin calls are not deductible when they are deposited by the writer into their ASX Clear account. These margins will merely reduce any net position of the writer upon the close-out, settlement or exercise of the Option by the taker.

Any interest the writer receives on the margins held in their ASX Clear account, is required to be included in the writer's assessable income.

### **Taker of the Option**

Where a taker of an Option holds or trades an Option in the ordinary course of their business, or the Option is used to hedge an underlying revenue asset, the Option will generally be treated as being on revenue account.

Where this is the case, any premium the taker of the option pays 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 relevant.

## CAPITAL ACCOUNT

### Writer of the Option

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

Where this is the case, the premium the writer of the Option receives will ordinarily be taken into account in calculating the writer's capital gain at the time the option is granted. Any premium that is credited to the writer's ASX Clear account will need to be reflected in the writer's CGT calculation.

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.

Any interest the writer receives on the margins held in their ASX Clear account, 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 under the CGT provisions. 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 writer. 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 take into account the amounts paid for the Option (e.g. the premium plus any incidental costs) when calculating their capital gain or loss from the event.

### Exercise of a call Option

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

### Exercise of a put Option

Where a put Option is exercised, the taker will generally deduct the Option price from the proceeds received on the disposal of the underlying asset when calculating their capital gain or loss from the disposal.

### Index Options

From an income tax perspective there are no specific legislative rules when dealing with trading in respect to index ETOs. Consequently, the taxation consequences of investing in index ETO's shall be determined by taking into account the investor's circumstances in accordance with general tax principles.

Generally, the taxation consequences of investing in index ETOs will be the same as those outlined above. However as the circumstances of each investor are different, investors should obtain

professional tax advice relating to whether their index ETOs are held on revenue account and the timing of any tax consequences, particularly that index ETO will be cash settled. There's an alternative view that any tax consequences don't occur until the index ETOs are closed out, exercised or expire. Using this alternative view may mean you need to account for index Options using a different approach.

### **Complying Superannuation Funds and Managed Investment Trusts**

Certain investors (such as complying superannuation funds), or managed investments trusts that are eligible for, and make the capital account election, will generally be taxed on capital account for their ETOs.

### **Taxation of Financial Arrangements**

Since 1 July 2011 the taxation of financial arrangements in Australia has been governed by the Taxation of Financial Arrangements (TOFA) rules. ETOs covered by this PDS will normally qualify as financial arrangements subject to the TOFA regime. The TOFA rules:

1. will generally deem gains and losses from financial arrangements to be on revenue account;
2. are likely to modify the timing of recognition of gains and losses; and
3. may, in some circumstances, require recognition on an unrealised basis.

Generally the TOFA rules do not apply to individuals, small superannuation funds and small securitisation vehicles. However, if a substantial tax deferral is obtained then the TOFA rules can potentially apply. Corporate taxpayers will be subject to the TOFA rules if they breach certain turnover requirements (currently A\$100 Million).

If you are within the TOFA rules the impact upon the timing of recognition of ETO profits and losses for taxation purposes will vary depending upon whether particular elections involving financial reports, fair value and hedging have been made. You should seek advice from your tax adviser about your particular circumstances.

### **Goods and Services Tax**

The purchase and disposal by investors of ETOs over financial products and indices is not subject to GST.

### **Stamp Duty**

Generally no Stamp Duty is payable on ETO transactions, but ETOs may be subject to Marketable Securities duty on any secondary trading. You should seek advice from your Stamp Duty advisor.

### **Client Trust Accounts**

Client money and securities paid or given by you in connection with our advising or dealing in Options must be held by us on trust in accordance with the Corporations Act 2001 (Cth) (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 which we have had to make to ASX Clear (generally margin calls) in respect of dealings for you.

The Corporations Act allows us to use your money held in our trust account to meet margin obligations and guaranteeing, securing, transferring, adjusting or settling dealings in cleared derivatives where we have incurred the obligation in connection with the derivative under the operating rules of an authorised clearing and settlement facility (for example, ASX Clear).

CommSec is entitled to retain any interest we earn on client money held by us in a trust account. The rate of interest is determined by the relevant bank or financial institution where the trust account is held.

Refer to clause 15 of the Client Agreement.

## RESOLVING DISPUTES

If you have a complaint or problem with CommSec Options, we'd like to hear from you.

To help us deal with the issue quickly and effectively, we suggest you start by:

- Gathering any supporting documents concerning your complaint, paying particular attention to the dates and times when the problem occurred.
- Noting the names of any CommSec or CBA staff who were involved.

- Clarifying what you would like CommSec to do to resolve the issue.

Next, contact the CommSec Options support on **13 15 19 between 8am and 6pm (Sydney time) Monday to Friday**, and explain the problem. A quick call is all that's required to resolve most issues.

If at this stage your complaint has not been resolved to your satisfaction, you may contact our Customer Relations team.

<b>Phone</b>	1800 805 605 from Australia or +61 2 9687 0756 from overseas (8am - 6pm, 7 days a week Syd/Melb time)
<b>Website</b>	Visit the CommBank website and search 'Feedback'.
<b>Mail</b>	Customer Relations Reply Paid 41 Sydney NSW 2001

You can view CommSec's internal dispute resolution process and contact details in our Financial Services Guide.

## External dispute resolution

If, after giving Customer Relations the opportunity to resolve your complaint, you feel we have not resolved it satisfactorily, you may also lodge a written complaint with the Australian

Financial Complaints Authority (AFCA), a body recognised by the Australian Securities and Investment Commission.

For further information please contact AFCA at:

<b>Online</b>	<a href="http://www.afca.org.au">www.afca.org.au</a>
<b>Email</b>	<a href="mailto:info@afca.org.au">info@afca.org.au</a>
<b>Phone</b>	<b>1800 931 678</b> (free call)
<b>Mail</b>	Australian Financial Complaints Authority GPO Box 3, Melbourne VIC 3001

## The National Guarantee Fund

The National Guarantee Fund (NGF) provides ASX Option traders with protection in the following circumstances:

- If a share is exercised, the NGF guarantees completion of the resulting trades in certain circumstances.
- If you have entrusted property to CommSec in the course of dealing in Options and

CommSec later becomes insolvent, you may claim on 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.

For more information regarding the NGF, visit [segc.com.au](http://segc.com.au) or call (02) 8216 0231.

# Glossary

**Adjustments:** Occur for certain events such as a share split or a share dividend. An adjusted Option may cover more (or less) than the standard 100 shares per Options contract.

**American style:** An Option that can be exercised at any time prior to its expiration date.

**Ask:** The price at which a seller is offering to sell an Option or a share.

**Assigned:** When the written Option is exercised by the Option holder, the Option's writer is said to be assigned. The Option writer is required to fulfil their obligation by delivering the terms of the contract through buying or selling the underlying security.

**Assignment:** Notification by ASX Clear that an owner of an Option has exercised their Options contracts.

**ASX:** ASX Limited ACN 008 624 691 is the operator of the Australian Securities Exchange. The ASX Group is a multi-asset class, vertically-integrated exchange group whose activities span primary and secondary market services, including the raising, allocation and hedging of capital flows, trading and price discovery; central counterparty risk transfer; and securities settlement for both the equities and fixed income markets. Our use of 'ASX' generally refers to the activities undertaken by the Australian Securities Exchange.

**ASX Clear:** ASX Clear Pty Limited ACN 001 314 503, the Clearing House for all shares, structured products, warrants and ASX Equity Derivatives.

**ASX Clear Margin:** The margin required by ASX Clear and includes premium margin and risk margin.

**At-the-money:** A term that describes an Option with a strike price that is equal to the current market price of the underlying security.

**Bearish:** An adjective describing the opinion that a share, or a market in general, will decline in price – a negative or pessimistic outlook.

**Bid:** The price at which a buyer is willing to buy an Option or a share.

**Breakeven point:** The share price(s) at which an Option strategy results in neither a profit nor a loss.

**Bullish:** An adjective describing the opinion that a share, or the market in general, will rise in price – a positive or optimistic outlook.

**Call Option:** An Option contract that gives the buyer the right, but not the obligation, to buy the underlying security at a pre-determined price on or before a fixed date. For the seller of a Call Option, the contract represents an obligation to sell the underlying security if the Option is assigned.

**Cash settled:** A condition of an Options contract which requires a cash settlement on exercise rather than physical delivery of the underlying security.

**Collateral:** Securities or cash used to provide security for margin obligations.

**CommSec Margin:** The margin required by CommSec which is in addition to the ASX Clear Margin.

**Contract:** A holder of an Options contract has the right but not the obligation to buy or sell a specific amount of a given underlying asset at a specified price during a specified period of time.

**Contract size:** The amount of the underlying security covered by the Option contract. The current standard contract size on the ASX is 100 shares for one equity Option unless adjusted for a corporate action.

**Corporate action:** An event initiated by a public company that affects the securities issued by the company.



**Covered:** An open short Option position that is fully offset by a corresponding share or Option position. That is, a covered Call could be offset by long share or a long Call, while a covered Put could be offset by a long Put or a short share position. This insures that if the owner of the Option exercises, the writer of the Option will not have a problem fulfilling the delivery requirements.

**Decay:** A term used to describe how the theoretical value of an Option 'erodes' or reduces with the passage of time.

**Deliverable:** A condition of an Options contract which requires the physical exchange of the underlying security on exercise.

**Early exercise:** Where an Option is exercised prior to its expiration date.

**Equity Option:** An Option where the underlying security is an individual share listed on the ASX.

**European style:** An Option that can only be exercised on its expiry day.

**Exchange-traded options or ETOs or Options:**

A financial derivative that represents a contract sold by one party (Option writer) to another party (Option holder). The contract offers the buyer the right, but not the obligation, to buy (call) or sell (put) a security or other financial asset at an agreed-upon price (the strike price) during a certain period of time or on a specific date (exercise date).

**Ex-dividend date:** The day before which an investor must have purchased the shares in order to receive the dividend. Options holders are not entitled to dividends unless the Options holder exercised the Options to become the holder of the shares before the ex-dividend date.

**Exercise:** To invoke the rights granted to the owner of an Option contract. In the case of a Call, the Option owner buys the underlying security. In the case of a Put, the Option owner sells the underlying security.

**Exercise price:** The price at which the owner of an Option can purchase or sell the underlying security. Used interchangeably with strike price.

**Expiration date:** The date on which an Option and the right to exercise it cease to exist.

**In-the-money:** A term used to describe an Option with intrinsic value. A Call Option is in-the-money if the share price is above the strike price. A Put Option is in-the-money if the share price is below the strike price.

**GST:** A Goods and Services Tax, as defined in the A New Tax System (Goods and Services Tax) Act 1999 (Cth).

**Index:** A statistical indicator that represents the value of a section in the share market.

**Index Option:** An Option where the underlying security is an index. Generally, index Options are cash settled.

**Intrinsic value:** The difference between the Option's strike price and the market value of the underlying security. Where an Option has an intrinsic value it is in-the-money.

**Leverage:** Also called gearing, leverage allows an investor to gain exposure to a larger value asset than their initial outlay. Leveraging can magnify an investor's gains and losses.

**Long position:** Where an investor buys to open (takes) an Option position. The taker of a Call has the right to buy shares and the taker of a Put has the right to sell shares at a specified price.

**Margin or Total Margin:** When an investor writes an Option, the investor has a potential obligation to the market if the taker of the Options decides to exercise it. The margin is the amount that CommSec calculates is necessary to ensure that the investor can meet that obligation, and includes ASX Clear Margin and CommSec Margin.

**Market maker:** Firms who compete against one another while trading on their own accounts and at their own risk. They are assigned shares in which they must meet certain obligations, such as quoting buy.

**Monthly Options Statement:** A statement generated by CommSec on the first business day of the month that relates to the current Options positions held and Options activity relating to the previous month made available to CommSec Options clients.

**Multi-leg:** A type of order allowing a trader to simultaneously buy and sell a variety of different Options all at once that could traditionally have been achieved had separate orders been placed for them. This type of order is primarily used in advanced Option trading strategies.

**Naked:** A short Option position that is not specifically hedged. A short Call position is uncovered if the writer does not have a long share or long call position. A short put position is uncovered if the writer is not short shares or long another Put.

**Neutral:** An adjective describing the belief that a share or the market in general will neither rise nor decline significantly.

**Neutral strategy:** An Option strategy expected to benefit from a neutral market outcome.

**Out-of-the-money:** A term used to describe an Option that has no intrinsic value. A Call Option is out-of-the-money if the share price is below its strike price. A Put Option is out-of-the-money if the share price is above its strike price.

**Payoff diagram:** A chart of the profits and losses for a particular Options strategy prepared in advance of the execution of the strategy. The diagram is a plot of expected profits or losses against the price of the underlying security.

**Position and Financial Statement:** A statement generated by CommSec on a daily basis that relates to the current Options positions held and Options activity relating to the previous trading day made available to CommSec Options clients.

**Premium:** Total price of an Option made up of the intrinsic value and the time value.

**Protective:** A reference to risk-management or hedging strategy that investors can utilise to guard against the loss of unrealised gains, or establish a floor price to the underlying shares.

**Purchase price:** The price that an investor pays for an underlying security.

**Put Option:** An Option contract that gives the buyer the right, but not the obligation, to sell the underlying security at a pre-determined price on or before a fixed date. For the seller of a Put Option, the contract represents an obligation to buy the underlying security if the Option is assigned.

**Series:** Option contracts on the same class having the same strike price and expiration date.

**Settlement:** Payment or receipt of funds as a result of buying or selling securities.

**Short position:** Where an investor sells to open (writes) an Option position. Writers of Options receive the premium upfront but have an obligation to buy (in the case of a Put) or sell (in the case of a Call) the underlying security if the Options contract is exercised.

**Strike price:** see exercise price.

**Taker:** An investor who buys an Option to open a position. The taker of a Call has the right to buy shares and the taker of a Put has the right to sell shares at a specified price.

**Time decay:** Time decay is the cost of holding an Option from one day to the next. For takers of options there is one less day in which the underlying security price moves to profit the trader. As this reduces the probability that the taker of the Option will receive a profit, the price of the Option will decrease, all else remaining constant. Writers of Options benefit from time decay as for each day that passes, the possibility of their position being assigned reduces.

**Time value:** The part of an Option's total price that exceeds its intrinsic value. The price of an out-of-the-money Option consists entirely of time value.

**Trading Strategy:** A trading strategy is a set of objective rules and specifications for entering and exiting trades.

**Trading Statement:** A statement generated by CommSec that confirms trading activity. Also commonly referred to as a Confirmation.

**Transaction costs:** All of the fees and charges associated with executing a trade and maintaining a position such as brokerage and ETO Contract fees.

**Underlying Security:** The financial instrument on which a derivative's value is based.

**Volatility:** A measure of share price fluctuation.

**Writer:** An investor who sells an Options position to open a position. While this position remains open, the writer is subject to fulfilling the obligations of that Option contract.

# How to Invest in Options *with CommSec*

<b>STEP 1</b>	<p><b>To invest in Options* with CommSec, you need to have:</b></p> <ul style="list-style-type: none"> <li>• A CHESS Sponsored CommSec Share Trading account; and</li> <li>• One of the following settlement account: a Commonwealth Direct Investment Account (CDIA), a Commonwealth Bank of Australia (CBA) account, or a CommSec Margin Loan.</li> </ul> <p>* CommSec does not allow trading in Low Exercise Price Options (LEPOs)</p>
<b>STEP 2</b>	<p><b>Consider the risks and benefits</b></p> <ul style="list-style-type: none"> <li>• Carefully consider all the information in this PDS and the Terms and Conditions including the Risk Disclosure Statement on page 33.</li> <li>• Read the ASX booklet Understanding Options Trading. You can obtain a copy from <a href="https://www.asx.com.au/content/dam/asx/investors/investment-options/options/understanding-options.pdf">https://www.asx.com.au/content/dam/asx/investors/investment-options/options/understanding-options.pdf</a> or by calling CommSec on <b>13 15 19</b>.</li> <li>• Refer to the ASX Website <a href="https://www.asx.com.au/investors/learn-about-our-investment-solutions/asx-options-knowledge-hub">https://www.asx.com.au/investors/learn-about-our-investment-solutions/asx-options-knowledge-hub</a>, and the other ASX booklets available at <a href="https://www.asx.com.au/investors/investment-tools-and-resources/brochures">https://www.asx.com.au/investors/investment-tools-and-resources/brochures</a> to ensure that you have a full understanding of the product.</li> </ul>
<b>STEP 3</b>	<p><b>Apply</b></p> <p>Apply online via the CommSec website.</p> <p>If you have any questions about how you can apply or require further information, please do not hesitate to contact CommSec Options support on <b>13 15 19 between 8am and 6pm (Sydney time) Monday to Friday</b>.</p>

# RISK DISCLOSURE STATEMENT FOR DERIVATIVES TRADED ON ASX'S MARKETS

## ACKNOWLEDGEMENT OF READING THIS RISK DISCLOSURE STATEMENT MUST BE SIGNED BY ALL APPLICANTS.

This document does not disclose all aspects of risk associated with the trading of ASX Derivative Products. Trading in derivatives is not suitable for some private investors. In light of the risks associated with trading ASX Derivative Products, you should invest in them only if you understand the nature of the products (specifically, your rights and obligations) and the extent of your exposure to risk. Before you invest, you should carefully assess your experience, investment objectives, financial resources and all other relevant considerations and discuss these with CommSec. You should not rely on this Risk Disclosure Statement as a complete explanation of the risks of investing in ASX Derivatives Products including ASX Options Market Contracts.

### 1. EFFECT OF 'LEVERAGE' OR 'GEARING'

Transactions in all ASX Derivative Products carry a degree of risk. The initial outlay of capital may be small relative to the total contract value so that transactions are 'leveraged' or 'geared'. A relatively small market movement may have a proportionately larger impact on the value of the contract. This may work against you as well as for you. You may sustain a total loss of margin funds deposited with CommSec in relation to your positions.

If the market moves against your position or margin levels are increased, you may be called upon to pay substantial additional funds on short notice to maintain your position, or upon settlement of contracts. If you fail to comply with a request from CommSec for additional funds within the time prescribed, CommSec may close out your position and you will be liable to CommSec for any loss that might result.

### 2. SPECIFIC PRODUCT RISKS

The purchaser of an Option Market Contract, whether it is a Call Option or a Put Option, has a known and limited potential loss. If a purchased Option Market Contract expires worthless, the purchaser will lose the total value paid for the Option (known as the premium), plus transaction costs.

Selling (writing) Options may entail considerably greater risk than purchasing Options. The premium received by the seller of an ASX Options Market Contract is fixed and limited; however, the seller may incur losses greater than that amount. For more information on ASX Options Market Contracts, you should talk with CommSec and read the ASX publication, Understanding Options Trading, as provided.

### 3. RISKS RELEVANT TO ALL ASX DERIVATIVE PRODUCTS

#### (i) Risk-reducing orders or strategies

The placing of certain orders (for example 'stop-loss' orders) which are intended to limit losses to certain amounts may not be effective because market conditions may make it impossible to execute such orders. Strategies using combinations of positions, such as 'spread' and 'straddle' positions may be as risky as taking simple 'long' or 'short' positions.

#### (ii) Terms and conditions of contracts

You should ask CommSec about the terms and conditions of all ASX Derivative Products contracts in which you are considering investing. Under certain circumstances the specifications of outstanding contracts may be modified by ASX or by ASX Clear or other relevant clearing and settlement facility.

#### (iii) Suspension or restriction of trading and pricing relationships

Market conditions (for example, illiquidity) or actions by ASX or ASX Clear or other relevant clearing and settlement facility (for example, the suspension of trading in an ASX Derivative Product) may increase the risk of loss by making it difficult or impossible to effect transactions or close out existing positions.

Normal pricing relationships may not exist in certain circumstances, for example, in periods of high buying or selling pressure, high market volatility or illiquidity in the market for a particular ASX Derivative Product.

ASX and ASX Clear have broad powers under their respective rules to take action in the interests of maintaining fair and orderly markets and, in some circumstances, this may affect your positions.

#### **(iv) Margins, cash and property**

You should familiarise yourself with the protections for money or other property you deposit for transactions, particularly in the event of a broker's insolvency or bankruptcy. The extent to which you may recover money or property which you provide to CommSec is governed by the Corporations Act and other legislation and rules. In certain circumstances you may have a claim against the National Guarantee Fund.

#### **(v) Trading facilities**

As with all trading facilities and systems, the systems used in the market are vulnerable to temporary disruption or failure, which may result in your order not being executed according to your instructions or not executed at all. Your ability to recover certain losses may be subject to limits on liability imposed by the system provider, ASX, ASX Clear, another relevant clearing and settlement facility or CommSec.

A second risk is that the stock shows unexpected strength. No matter how high the share price rises, as long as they are subject to the written Call the most you will receive for your shares is the Option's exercise price (plus the Option premium). In regards to stock encumbered on a margin loan, the portfolio value of the stock is capped at the exercise price of the Call Options. The down-side of the stock is not protected and the normal conditions of the margin loan apply if the stock decreases in value. Buying shares on margin involves risks, which you should discuss with your margin lender or financial adviser.

### **4. RISKS OF MARGIN LOAN COVERED CALL WRITING**

Selling covered Call Options over margined shares is an investment strategy for the confident investor. There are inherent risks to consider when implementing this strategy and you should ensure they are fully understood before proceeding. The maximum profit possible from writing a covered Call Option is the premium earned from writing the Option. The main risk of this strategy is that the stock price falls significantly. You still hold the underlying shares, and the written Call Option provides you protection only to the extent of the premium received.



# We're here *to help*

To find out more, call us on **13 15 19**,  
8am to 6pm (Sydney time), Monday to Friday,  
or visit our website.

**13 15 19**



**CommSec**