



PRODUCT DISCLOSURE STATEMENT FOR THE ISSUE BY MORRISON SECURITIES PTY LIMITED OF STANDARD EQUITY ETOs AND INDEX ETOs and LEPOs

PART 1

This document is part of a Product Disclosure Statement and is Part 1.

The other document which makes up the Product Disclosure Statement is a separate Part 2, which deals with Morrison Securities' brokerage fees and Clearing House fees. Together this Part 1 and Part 2 make up the Product Disclosure Statement.

Both Part 1 and Part 2 **MUST** be read and considered in conjunction with each other before making any decision to invest.

This Product Disclosure Statement is issued by Morrison Securities Pty Limited.
Australian Financial Services Licence number 241737.
ABN: 50 001 430 342

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TABLE OF CONTENTS

1.	The Purpose of this PDS	1
2.	What are Exchange Traded Options?	3
3.	General Information relating to all ETOs	7
4.	Significant Benefits of Standard ETOs and LEPOs	10
5.	Significant Risks of Standard ETOs and LEPOs	13
6.	Amounts Payable in relation to Standard ETOs and LEPOs	16
7.	Dispute Resolution	17
8.	Taxation Implications	18

1. THE PURPOSE OF THIS PDS

1.1 WHO IS MORRISON SECURITIES ?

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1.2 MORRISON SECURITIES’ ROLE AS BROKER

Morrison Securities is the holder of Australian Financial Services Licence (“AFSL”) number 241737.

Under the terms of its AFSL, Morrison Securities is authorised to act for clients and buy and sell financial products on the client’s behalf on the ASX, including options on the ASX’s Options Market.

When Morrison Securities buys or sells an option on the client’s behalf on the ASX’s Options Market, the Corporations Act deems Morrison Securities to be the “issuer” of that option. Under the terms of its AFSL, Morrison Securities is authorised to “issue” exchange traded options.

1.3 PRODUCTS COVERED BY THIS PDS

This PDS covers exchange traded options (“ETOs”) traded on ASX and settled and cleared by Australian Clearing House Pty Ltd (“the Clearing House”). It deals with exchange traded equity options and index options (“standard ETOs”) and Low exercise Price Options (“LEPOs”).

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 Exchange Traded Options are traded can be found on the ASX website www.asx.com.au/options.

LEPOs are call options with an exercise price of one cent. LEPOs are leveraged instruments and potential profits and losses can be greater than the money initially outlaid.

1.4 THE IMPORTANCE OF THIS PDS

This PDS is designed to assist you in deciding whether the types of options covered in this PDS are appropriate for your needs. This PDS is an important document and you should read it in full. You should contact your adviser if you have any questions arising from the PDS prior to entering into any transactions with Morrison Securities.

1.5 WARNING

Before trading in the types of options referred to in this PDS you should be satisfied that any trading you undertake in relation to those types of options is appropriate in view of your own objectives, financial situation and needs.

1.6 READING THIS PDS

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

The ASX has prepared a number of educational booklets relating to exchange trade equity and index options and Low Exercise Price Options, and you should read them before making a decision to trade a standard ETO or LEPO. These booklets are available from the ASX's website at www.asx.com.au, or from us either directly or from our website www.morrisonsecurities.com. This PDS cross references certain of the ASX booklets.

2. WHAT ARE EXCHANGE TRADED OPTIONS ?

2.1 WHAT IS AN OPTION ?

2.1.1 Basic definition:

In simple terms, an option is an agreement between two parties giving the taker (buyer) the right, but not the obligation, either to buy or to sell an asset (or assets) at a set price, either:

- (a) on a predetermined date; or
- (b) on or before a predetermined date.

2.1.2 Call options and put options:

There are two types of options: call options and put options.

A call option gives the taker the right, but not the obligation, to buy the underlying asset (or assets) at a predetermined price on or before (or just on) a predetermined date.

A put option gives the taker the right, but not the obligation, to sell the underlying asset (or assets) at a predetermined price on or before (or just on) a predetermined date.

To acquire this right, the taker pays a premium to the writer (seller) of the contract.

2.2 WHAT IS AN EXCHANGE TRADED OPTION?

An exchange traded option is an option made available by the Clearing House with standardised Contract Specifications for that particular type of option.

Details on:

- Equity and Index exchange traded options (standard ETOs); and
- LEPOs,

are set out below.

2.3 WHAT ARE THE DIFFERENT EXERCISE STYLES FOR A STANDARD ETO?

There are 2 different exercise styles for a standard ETO:

- (a) **American style:** which means the ETO can be exercised on or before the expiry day; and
- (b) **European style:** which means the ETO can only be exercised on the expiry day.

2.4 WHAT ARE THE DIFFERENT CATEGORIES AND TYPES OF STANDARD ETO?

Presently the Clearing House makes available 2 different categories of standard ETOs:

- (a) exchange traded equity ETOs: where the underlying asset is a company share;
- (b) exchange traded index ETOs: where, in simple terms, the underlying asset is an index related to a parcel of shares.

The ASX website provides a list of company shares and indices over which standard ETOs are made available, and these can be found at www.asx.com.au.

2.5 THE 5 COMPONENTS OF A STANDARD EQUITY OPTION CONTRACT

2.5.1 The underlying shares:

Standard equity options on ASX's Options Market are only available for certain shares. The ASX website provides a list of companies over whose shares equity options are traded. These can be found at "www.asx.com.au/options".

2.5.2 The contract size:

An option contract size is standardised at 1,000 underlying shares. That means 1 option contract represents 1,000 underlying shares.

2.5.3 The expiry day:

Options have a limited life span, and expire on expiry days set by the Clearing House.

Standard equity options follow one of three cycles, namely:

- (a) January / April / July / October;
- (b) February / May / August / November;
- (c) March / June / September / December.

Expiry day information is available on the ASX website at www.asx.com.au.

2.5.4 The exercise price (or strike price):

The exercise price (or strike price) is the specified price at which the taker of an equity option can buy or sell the underlying shares. The Clearing House sets the exercise prices for all equity options available on the ASX's Options Market. The Clearing House sets the range of exercise prices at specific intervals according to the value of the underlying shares.

2.5.5 Premium

The premium is the price of the option which is arrived at by negotiation between the taker and the writer of the option. It is the only component of the 5 option contract components that is not set by the Clearing House. 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 1,000 (the number of underlying shares). 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).

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

2.6 THE 5 COMPONENTS OF A STANDARD INDEX OPTION CONTRACT

2.6.1 The underlying asset:

Index options are similar in many ways to equity options. The difference is that a standard index option is over an index approved by the Clearing House, instead of shares in a single company. The index relates to a parcel of shares, such as the S&P/ASX200.

For example, buyers of call index options can nominate an index level (exercise level) at which they can notionally buy the index. Given that it is not practical to buy all of the shares underlying the index, index options are settled in cash, rather than physical delivery of the shares underlying the index.

Index options on ASX's Options Market are only available for certain indices. The ASX website provides a list of indices over which index options are traded. These can be found at "www.asx.com.au/options".

2.6.2 The contract size:

In the case of index options the contract value is fixed by the Clearing House. Presently it is fixed at \$10 per index point. To calculate the value of the contract you multiply the index level by \$10. However you should contact your adviser, Morrison Securities or the ASX website for the latest contract values.

2.6.3 The expiry day:

Options have a limited life span, and expire on expiry days set by the Clearing House.

Standard index options have the following contract months: March / June / September / December.

Index options are usually European in exercise style. This means that the holder can only exercise an option on the expiry day.

Expiry day information is available on the ASX website at www.asx.com.au.

2.6.4 The exercise price (or strike price):

The exercise price for an index option is usually expressed in points. The Clearing House sets the exercise prices for all index options available on the ASX's Options Market.

2.6.5 Premium

The premium is the price of the option which is arrived at by negotiation between the taker and the writer of the option. It is the only component of the 5 option contract components that is not set by the Clearing House.

The premium for an index option is usually expressed in points, and 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 level of the index, the volatility of the underlying index, the time remaining to expiry date, interest rates, dividends and general risks applicable to markets.

2.7 ADJUSTMENT TO CONTRACT SPECIFICATIONS

An adjustment is a change made by the Clearing House to one or more of the Contract Specifications of an ETO.

The Clearing House may in accordance with its operating rules make an adjustment to any of the Contract Specifications when a company announces a type of corporate event that affects shares in a specific way. For example the Clearing House may make an adjustment if the listed entity to which the option relates makes a pro-rata change to its ordinary share capital structure (eg. Bonus issues or special dividends are declared). If the Clearing House does make an adjustment it will endeavour to preserve the open positions of takers and writers at the time of the adjustment as far as possible.

The Clearing House has issued an Explanatory Guide for Option Adjustments which can be found at www.asx.com.au which provides further information regarding Clearing House option adjustments.

2.8 WHAT IS A LOW EXERCISE PRICE OPTION ("LEPO")?

LEPOs are call options on any share approved by the ASX with an exercise price of one cent. LEPOs are European style exercise. That is, they can only be exercised at expiry but they can be closed out early by buying or selling the LEPO as initially sold or bought, respectively. The main difference between a LEPO and a standard ETO is that with a LEPO the full amount of the premium is not paid upfront. Instead, both buyers and sellers of LEPOs are required to pay margins to take into consideration change in price over time. The maximum loss for the buyer is the premium paid for the options contract. As LEPOs have a low exercise price the full premium amount will be closer to the full value of the underlying instrument than a standard ETO. Although the buyer of a LEPO may only be required to outlay a relatively small amount of

money as margins when the LEPO is entered into, at expiry if the buyer of a LEPO does not exercise the LEPO they will lose an amount approximately equal to the then current premium of the LEPO.

For more information refer to the ASX booklet entitled “Understanding LEPOs” available online at www.asx.com.au/markets/pdf/UnderstandingLEPOs.pdf or from us either directly or from our website www.morrisonsecurities.com.

2.9 COMPARISON OF EQUITY OPTIONS, INDEX OPTIONS AND LEPOs

The table below summarises the main differences between equity options, index options and LEPOs.

	Equity option	Index option	LEPOs
Exercise style	American	European	European
Settlement	Physical delivery of underlying share	Cash settled	Physical delivery of underlying share
Underlying asset	Clearing House approved shares	Notionally a parcel of shares represented by a Clearing House approved index, although contract is cash settled rather than physical delivery of shares	Clearing House approved shares
Premium	Expressed in dollars and cents	Expressed in points	Expressed in dollars and cents
Exercise price	Expressed in dollars and cents	Expressed in points	Expressed in dollars and cents
Contract size	1,000 shares	The exercise price of the option multiplied by \$ value	1,000 shares (for equity LEPOs) or \$10 times the underlying index (for index LEPOs)

3. GENERAL INFORMATION RELATING TO ALL ETOs

3.1 OPTION PRICING

Most option pricing involves the use of a mathematical formula which includes calculating the intrinsic and time value of the particular option. You should refer to the section entitled “**Option pricing fundamentals**” in the ASX Booklet “Understanding Option Trading” for more information regarding the fundamentals of pricing options. ASX also provides a pricing calculator on the ASX website, www.asx.com.au.

You can obtain current price information from your adviser or from Morrison Securities.

3.2 CREATING AND SETTLING AN OPTION CONTRACT

An ETO is created on the Clearing House’s computerised market known as the *Derivatives Trading Facility* (“DTF”), otherwise known as “CLICK”. This system links brokers from around Australia and allows them to participate directly in ASX’s Options Market.

The settlement of an ETO is carried out by the Clearing House, the ASX’s options clearing system.

An option contract comes into existence when a writer and taker agree on the option price and the contract is registered with the Clearing House. Once an ETO trade is registered with the Clearing House the process of *novation* results in the Clearing House becoming the counterparty to both the buying broker and selling broker. That is, the Clearing House becomes the buyer for each sold option, and the seller for each bought option. This means that the buying broker and selling broker do not have to rely on each other to perform under the original option contract.

The Clearing House does not have any contractual relationship with you.

3.4 OPENING AN OPTION POSITION

The establishment of an ETO 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; or
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) an option in the same series as originally written (provided it has not already been exercised against), and instructing their broker to ‘close out’ the earlier open position.

3.5 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:

1. when there is a risk of unwanted early exercise (unless an index option as they can only be exercised on expiry day);

2. to take a profit; or
3. to limit a loss.

It is important that you advise Morrison Securities 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 as the contract party when an existing buyer sells to close their position.

3.6 MARKET LIQUIDITY

Under ASX rules obligated market makers must provide either a quote request or continuous markets for specified spreads and quantities.

You should refer to the ASX Booklet “**Understanding Option Trading**” for more information regarding market makers.

3.7 EXERCISE OF AN EQUITY OPTION

An equity option taker may make the decision to exercise an equity 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 option and either buy or sell (depending on whether it is a call option or a put option) at the predetermined price then the Clearing House 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 option, or accept the shares at the predetermined price for a put option. 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 has lost the opportunity to close out their position and must effect the delivery or cash settlement obligations for the particular equity option contract.

Payment for, and the delivery of underlying securities, on exercise of an open equity contract occurs via the ASX’s Clearing House Electronic Subregister System (CHES) on T+3.

We will automatically exercise your equity option if your contract is one cent or more in the money. For call options the option will be in the money where the exercise price is below the price of the underlying shares. For put options the option will be in the money where the exercise price is higher than the price of the underlying shares. All unexercised option contracts will expire on the expiry date.

3.8 EXERCISE OF AN INDEX OPTION

An index option taker may make the decision to exercise an index option contract. 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 understand these arrangements. For more information on settlement of index options see the ASX Booklet “**Understanding Options Trading**” section on ‘**Trading Index Options**’.

We will automatically exercise your index option if your contract is one point or more in the money. For call options the option will be in the money where the exercise price is below the price of the underlying shares. For put options the option will be in the money where the exercise price is higher than the price of the underlying shares. All unexercised option contracts will expire on the expiry date.

3.9 EXERCISE OF A LEPO

A LEPO taker may make the decision to exercise a LEPO. As LEPOs are a European style option contract they can only be exercised on the last trading day of the LEPO before they expire. If you are a buyer of a LEPO, you must notify Morrison Securities that you wish to take delivery of the underlying shares before the last trading day before they expire. You, as the buyer, must pay the balance of the premium to Morrison Securities and we will refund you the amount of any excess margin payments. The seller of the LEPO must deliver the specified number of underlying shares if assigned an exercised LEPO contract.

Settlement on exercise of a LEPO occurs via the ASX's Clearing House Electronic Subregister System (CHES) on T+3.

We will automatically exercise your LEPO if your contract is one cent or more in the money or one point or more in the money for indexes. For call options the option will be in the money where the exercise price is below the price of the underlying shares. For put options the option will be in the money where the exercise price is higher than the price of the underlying shares. All unexercised LEPOs will expire on the expiry date.

3.10 NO DIVIDENDS OR OTHER ENTITLEMENTS

Exchange traded options and LEPOs do not entitle holders to dividends or other entitlements paid by the issuer of the underlying securities. In order to be entitled to receive dividends or other entitlements, the holder must exercise the option or LEPO to become the holder of the underlying securities at or before the relevant date for dividend or entitlement purposes.

For the impact of special dividends on option contracts, please refer to Section 2.8 above.

3.11 NATIONAL GUARANTEE FUND

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

1. If an equity option is exercised, the NGF guarantees completion of the resulting trades in certain circumstances; and
2. if you have entrusted property to Morrison Securities in the course of dealing in options, and Morrison Securities later becomes insolvent, you may claim on the NGF, in accordance with the rules governing the operation of the NGF, for any property which has not been returned to you or has not otherwise been dealt with in accordance with Morrison Securities' 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.asx.com.au/about/pdf/NGFInformationBooklet.pdf

4. SIGNIFICANT BENEFITS OF STANDARD ETOs AND LEPOS

4.1 GENERAL

An option is a “derivative”, because the value of the option is derived from a value of another financial product or other financial products.

Derivatives can expose you to more or less risk depending on how you use them. ETOs can help increase your exposure to a particular security, such as a share or a parcel of shares, or they can help you protect your position from a price fall.

The flexibility of ETOs stems from the ability to both buy and short 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 flat markets.

However, both the purchase and sale of ETOs involve risks which are discussed below at length in Section [5].

4.2 ASX EDUCATIONAL BOOKLETS

The ASX has prepared a number of educational booklets explaining the benefits of exchange traded options, and you should read them before making a decision to trade an ETO.

These booklets are available from the ASX’s website at www.asx.com.au, or from us either directly or from our website www.morrisonsecurities.com.

A brief summary of the benefits for equity options, index options and LEPOs is provided below.

4.3 BENEFITS APPLYING TO EQUITY OPTION CONTRACTS, INDEX OPTION CONTRACTS AND LEPOs

The following benefits apply to both standard equity options and index options.

1. 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;
2. Exchange traded options and LEPOs benefit from standardization 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 Clearing House;
3. **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 or LEPO combinations allows investors to develop strategies regardless of the direction of the market;
4. Options or LEPOs do not require a rising market to make money, rather investors can **profit from both rising markets 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;
5. The initial outlay for an options or LEPOs contract is not as much as investing directly in the underlying shares, or the underlying shares represented by an index. Trading in options or LEPOs can allow investors to benefit from a change in the price of a share, or a parcel of shares, without having to pay the full price. An investor can therefore purchase

an option or LEPO (representing a larger number of underlying shares, or parcel of shares) for less outlay and still benefit from a price move in the underlying share, or parcel of shares. The ability to make a higher return for a smaller initial outlay is called **leverage**. Investors however, need to understand that leverage can also produce increased risks (see the discussion of risks below in Section 5).

6. Given the lower initial outlay attaching to options or LEPOs, investors can **diversify their portfolios and gain a broad market exposure** over a range of securities or over the index itself.

4.4 BENEFITS APPLYING SPECIFICALLY TO EQUITY OPTION CONTRACTS

In addition to the benefits outlined above under Section [4.3], equity options have the following benefits:

1. they allow a shareholder to **hedge** against fluctuations in their underlying share portfolio;
2. they allow a **shareholder to 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.
3. 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.

4.5 BENEFITS APPLYING SPECIFICALLY TO INDEX OPTION CONTRACTS

In addition to the benefits outlined above under Section [4.3], index options have the following benefits:

1. As the name suggests, index options give you exposure to a sharemarket index. They offer similar benefits and flexibility to that of equity options, with the added advantage of offering exposure to a broad range of shares comprising an index, rather than being limited to just one company.

4.6 BENEFITS APPLYING SPECIFICALLY TO LEPO CONTRACTS

In addition to the benefits outlined above under Section [4.3], LEPOs have the following benefits:

1. they allow an investor to **leverage** their share-market position with the effect of increasing both the profit potential and the risk profile of a portfolio. Movements in the share price lead to gains or losses on the LEPO which are only crystallised when the position is closed out or exercised;
2. they are cash efficient because of their leverage. Investors have a lower cash outlay for the same level of exposure to the market than with a direct investment in shares;
3. they are a good substitute for share trading as movements in LEPO premiums closely match movements in the underlying shares;
4. being only exercisable at expiry, 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;

5. they allow an investor to reduce their initial outlay to the extent that they have offsetting positions for options, whether the offsetting positions are in LEPOs or standard ETOs. Only risk margins can be offset, mark to market margins cannot be offset.

5. SIGNIFICANT RISKS OF STANDARD ETOs AND LEPOs

5.1 GENERAL

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

You should only trade exchange traded options if you understand the nature and characteristics of the products, the risks associated with trading exchange traded options, and the extent of your exposure to risks. The risks attached to investing in exchange traded options will vary in degree depending on the option traded.

Exchange traded options are not suitable for some retail investors, for example investors who have a low risk tolerance should not enter into exchange traded option trades which have the potential for unlimited losses.

5.2 ASX EDUCATIONAL BOOKLETS

This PDS does not cover in detail every aspect of risk associated with exchange traded options.

The ASX has prepared a number of educational booklets explaining the risks of exchange traded options, and you should read them before making a decision to trade a standard ETO or LEPO, including the ASX booklet “**Understanding Options Trading**” and in particular the section entitled “**Risks of option trading**”. These booklets are available from the ASX’s website at www.asx.com.au or either from us directly or from our website www.morrisonsecurities.com.

5.3 GENERAL INFORMATION ONLY

This PDS only provides general information about the risks of exchange traded options, and investors should obtain advice about the specific risks associated with a specific exchange traded option they intend to trade.

5.4 RISKS APPLYING TO EQUITY OPTION CONTRACTS, INDEX OPTION CONTRACTS AND LEPOs

In deciding whether or not you should trade exchange traded option contracts, you should be aware of the following general risks which apply to equity options, index options and LEPOs:

- (a) the high level of **leverage** that is obtainable in trading exchange traded options (due to the low level of initial capital outlay) can work against an investor as well as for the investor. 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". Depending on the market movement, the use of leverage may lead to large losses as well as large gains.
- (b) Exchange traded options have a **limited life span** as their value erodes as the option reaches its expiry date. It is therefore important to ensure that the option selected meets your investment objectives and financial circumstances.
- (c) the price of an exchange traded option is linked to movements in the underlying market and therefore the price of an exchange traded option may be **volatile**. Options may **fall in price** or become worthless at or before expiry. Changes in the price of the underlying share or index may result in changes to the price of an option, but the change may be in a different **direction** or of a different **magnitude** to the change in the price of the underlying share or index.
- (d) The maximum loss in taking (buying) an exchange traded option 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. In the case of LEPOs, the buyer has a higher risk profile than they would with a standard exchange traded option because the premium is larger. However, the risk is still limited to the full amount of the LEPO premium. The seller of the LEPO has the same potentially unlimited loss position as the seller of a standard exchange traded call option.

- (e) Whilst writers (sellers) of exchange traded options earn premium income, they may also incur unlimited losses if the market moves against the option position. The premium received by the 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 well above the current market price.
- (f) Writers of options could sustain a total loss of margin funds deposited with their broker where the market moves against the option position. In addition, the writer may be obligated to pay additional margin funds (which may be substantial) to maintain the option position or upon settlement of the contract.
- (g) Under certain conditions, it could become difficult or impossible to close out a position. This can happen for example where there is a significant change in price over a short time period.
- (h) The ASX and its Clearing House have discretionary powers in relation to the markets they oversee. 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.
- (i) The placing of risk minimisation orders may not always limit an investors losses to the amounts that are expected. Market conditions may make it impossible for a broker 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.
- (j) Trades effected on the ASX may be subject to dispute. When a trade is subject to a dispute the ASX has powers, in accordance with its rules, to request that a broker amend or cancel a trade, which will in turn result in the contract with the client being amended or cancelled.
- (k) Option trades effected on the ASX's Options Market are traded on an electronic trading platform known as "DTF", 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.
- (l) There may be times when there is very low or no liquidity in some options series, particularly in the case of deep in the money or far out of the money series. There are also some option classes which do not carry market making obligations.

5.6 ENGAGING IN AN OPTION'S TRADING STRATEGY

Specific concepts which you must understand before engaging in an option's trading strategy are:

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

6. AMOUNTS PAYABLE IN RELATION TO STANDARD ETOs AND LEPOs

6.1 BROKERAGE FEES AND CLEARING HOUSE FEES

Part 2 of this PDS contains information on Morrison Securities' brokerage fees and the Clearing House fees which you must pay in relation to buying and selling exchange traded options.

6.2 MARGINS

6.2.1 General

Writers of options will be obligated to pay a margin amount.

The Clearing House calculates margin amounts using a system known as TIMS (*Theoretical Intermarket Margining System*).

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.

The Clearing House requires Morrison Securities to pay margin amounts to the Clearing House. In turn Morrison Securities requires you to pay margin amounts to Morrison Securities. We may call more margin from you, compared to the amount that we are required to be pay to the Clearing House – we do this as a risk management tool.

In general the Clearing House margin obligations may be met by paying cash or by providing certain types of eligible collateral (eg. shares and bank guarantees). The Clearing House applies a 'haircut' in relation to the value of such collateral as a risk management tool, eg. the 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.

Total margin for exchange traded options is made up of two components:

1. **Premium margin** – this is market value of the particular position at the close of business each day.
2. **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.

Margin must be paid by you within 24 hours of you being advised of the margin call by us.

6.2.2 ASX Educational Booklets

The margining process used by the Clearing House is explained in detail in the ASX booklet "**Understanding Margin Obligations**" and you should read it before making a decision to trade an ETO. This booklet is available on the ASX website at www.asx.com.au.

7. DISPUTE RESOLUTION

You can register a complaint about the service provided to you by taking the following steps:

1. Contact us by telephone or in writing to lodge your complaint. We will seek to resolve your complaint quickly and fairly. Morrison Securities aims to communicate a resolution to a dissatisfied client within 21 days.
2. If your complaint is not satisfactorily resolved and you wish to proceed further, you may refer the matter to an independent complaint handling body. Morrison Securities is a member of the Financial Industry Complaints Service (FICS). Their contact details are:

Street Address: 31 Queen Street, Melbourne VIC 3000

Postal Address: PO Box 579, Collins Street West, Melbourne VIC 8007

Phone: (03) 9269 7050 / 1800 335 405 (toll free)

Fax: (03) 9621 2291

E-mail: fics@fics.asn.au

Website: www.fics.asn.au

This service is provided to you free of charge.

The Australian Securities and Investments Commission (ASIC) also has a free call info line on 1300 300 360 which you may use to make a complaint and obtain information about your rights.

8. TAXATION IMPLICATIONS

8.1 GENERAL INFORMATION ONLY

This PDS does not cover in detail every aspect of taxation as it relates to exchange traded options. The information below acts as a summary of significant taxation considerations that should be considered by you before investing in exchange traded options.

It is important to note that your tax position when trading exchange traded options will depend on your individual circumstances. You should consult your own taxation adviser before making any decisions to trade in exchange traded options.

8.2 ASX EDUCATIONAL BOOKLETS

The taxation treatment of options is explained in detail in the article “**Taxation Treatment of Options**” at www.asx.com.au/markets/pdf/Tax_implications.pdf, and you should read it before making a decision to trade an ETO. This article is available on the ASX website at www.asx.com.au. We take no responsibility for the contents of this article.

8.3 TAX IMPLICATIONS FOR AUSTRALIAN RESIDENT INVESTORS

8.3.1 Revenue Account

Writer of the Option

Where a writer of 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 options 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 to be 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 options 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.

8.3.2 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 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.

8.3.3 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.

8.3.4 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.

8.3.5 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 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.

8.3.6 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.

8.3.7 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.

8.3.8 Goods and Services Tax

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

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

8.3.9 Stamp Duty

No stamp duty is payable on ETO transactions.

PRODUCT DISCLOSURE STATEMENT FOR THE ISSUE BY MORRISON SECURITIES PTY LIMITED OF STANDARD EQUITY ETOs, INDEX ETOs AND LEPOs

PART 2 – MORRISON SECURITIES' BROKERAGE FEES AND CLEARING HOUSE FEES

This document is part of a Product Disclosure Statement and is Part 2.

The other document which makes up the Product Disclosure Statement is a separate Part 1, which deals with all other matters.

Together Part 1 and this Part 2 make up the Product Disclosure Statement.

Both Part 1 and Part 2 **MUST** be read and considered in conjunction with each other before making any decision to invest.

This Product Disclosure Statement is issued by Morrison Securities Limited.
Australian Financial Services Licence No. 241 737.
ABN: 50 001 430 342.

The date of this Part 2 is 1 July 2006.

PRODUCT DISCLOSURE STATEMENT – PART 2

This Part 2 of the PDS sets out Morrison Securities' brokerage and the Clearing House fees which you pay in relation to trading a standard equity option, index option or a LEPO.

1. MORRISON SECURITIES' BROKERAGE

ETO Fees Schedule effective from 1 July 2006

Morrison Securities ETO Brokerage Rates	
For Equities (Shares and Warrants):	
If funds are held in Morrison Securities Trust Account:	
Transaction Value	Brokerage (ex GST)
\$0.01 - \$49,999.99	\$20.00
\$50,000.00 - \$99,999.99	\$40.00
\$100,000.00 +	0.05%
If funds are held in a linked Macquarie/Adelaide Bank CMT Account or a linked Margin Lending Account:	
Transaction Value	Brokerage (ex GST)
\$0.01 - \$49,999.99	\$30.00
\$50,000.00 - \$99,999.99	\$50.00
\$100,000.00 +	0.06%
Please note that these commissions are for CHESSE sponsored accounts only and are charged per order per day. All commissions mentioned are exclusive of GST	
For Exchange Traded Options (ETOs):	
\$25.00 flat (plus GST) per order and an ACH Clearing Fee of \$1.12 per contract (inclusive of GST) if funds are held in Morrison Securities Trust Account	
\$30.00 flat (plus GST) per order and an ACH Clearing Fee of \$1.12 per contract (inclusive of GST) if funds are held in a linked Macquarie / Adelaide Bank CMT Account	
Trading Platform Subscription:	
webIRESS:	
FREE - for 10 or more trades per month	
\$100 (plus GST) per month - for less than 10 trades per month	
The above charges are payable in advance on the last day of the previous month and the	

appropriate rebate will be given at the end of the month

htmlIRESS:
FREE!

For access to htmlIRESS, a minimum balance of \$5000 must be maintained in the trading account

Telephone Trading

For Cash Market:

\$40.00 or 0.1%, whichever is greater, plus GST.

For One-Off Sale or Deceased Estates:

\$50.00 or 0.1%, whichever is greater, plus GST.

For Exchange Traded Options (ETOs):

\$40.00 or 0.50%, whichever is greater, plus GST and an ACH Clearing Fee of \$1.12 per contract (inclusive of GST).

2. CLEARING HOUSE FEES

2.1 Standard equity options:

The Clearing House (“ACH”) charges you a transaction fee of \$1.12 per equity option contract, including GST. If you exercise an equity option, ACH charges you an exercise fee of \$0.55 per contract, including GST.

2.2 Index options:

In relation to index options, ACH charges you an amount of \$0.39 per contract, including GST, for both the transaction fee and the exercise fee.

3. OTHER MISCELLANEOUS FEES

Service	Price
Issuer Sponsored to CHES Conversion	\$10.00
SRN Enquiry	\$25.00
Contract rebooking Fee	\$10.00
Off Market Transfers	\$30.00
Trace Fee for Unidentified Client Deposits	\$50.00
Trace Fee for Payments	\$50.00

Paper Contract Note or Reprint of Paper Contract Note	\$5.00
Cheque Payment	\$5.00
Overseas funds transfer	\$50.00
Transfer HIN, Holding or Options Positions to other Broker	\$50.00
Third Party Cheque	\$20.00
Bank Cheque	\$50.00
Dishonoured Cheque	\$50.00
Statement Print	\$10.00
Fail Fee - Buy	\$100.00 + 0.1% of the Contract value failed per day
Fail Fee - Sell	\$100.00 + 0.1% of the Contract value failed per day

Note: GST would be charged in addition to the above charges.