PRODUCT DISCLOSURE STATEMENT (PDS)

Issued by Morrison Securities Pty Limited
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A Participant of ASX Group, Chi-X, NSX and SSX

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

We recommend that you consult your financial adviser or obtain other independent advice before trading in exchange traded options or Low Exercise Price Options (**LEPOs**) or Total Return Single Stock (TORESS) LEPOs which is a type of LEPO.

1. Purpose of a PDS

This PDS has been prepared by Morrison Securities Pty Limited as the broker who is taken to be the issuer of the exchange traded options and low exercise price options. This PDS is designed to assist you in deciding whether the products covered in this PDS are appropriate for your needs. This PDS has been prepared to assist you in comparing it with others you may be considering. The PDS is an important document and we recommend you contact us should you have any questions arising from the PDS prior to entering into any transactions with Morrison Securities.

When we use terms 'we', 'us' or 'our' in this PDS, the reference is to Morrison Securities. If you have any questions in relation to this PDS, please do not hesitate to contact us by telephone 1300 363 766.

A glossary of terms used in this PDS is contained in section 13 below.

2. What products does this PDS cover?

This is a Product Disclosure Statement for exchange traded options which are able to be traded on the financial market operated by ASX Limited ABN 98 008 624 691 (**ASX**) and which are settled and cleared by ASX Clear Pty Limited ABN 48 001 314 503 (**ASX Clear**). It deals with exchange traded equity options and index options (each **exchange traded options**) and 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.

A list of companies and indices over which exchange traded options are traded can be found on the ASX website [http://www.asx.com.au/documents/products/asx_eto_market_making_scheme.pdf or http://www.asx.com.au/products/equity-options.htm].

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. LEPOs will move in price approximately the same as the underlying share.

3. Introduction

3.1 Exchange Traded Options (ETOs)

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

(a) hedge against fluctuations in their underlying share portfolio;
(b) increase the income earned from their portfolio; and
(c) profit from speculation.

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

The use of ETOs within an investor's overall investment strategy can provide flexibility to take advantage of rising, falling and sideways markets. However, both the purchase and sale of ETOs involves risks which are discussed at length later in the section titled "Significant risks explained".

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

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

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

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

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

3.2 Educational booklets

ASX has prepared a number of educational booklets relating to ETOs which are available to you via their website, http://www.asx.com.au/education/download-brochures.htm .

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

The ASX booklet entitled **Understanding Options Trading** is a booklet which we must give you in accordance with the ASX operating rules when you sign our client agreement to trade ETOs. This booklet is also available on line at http://www.asx.com.au/documents/resources/UnderstandingOptions.pdf .

If you cannot access the ASX booklets via the ASX website, please contact us immediately and we will arrange to forward copies of the booklets to you at no charge.

Morrison Securities suggests that you read and understand all of the information referred to in this section before you trade in ETO's. Before trading in ETOs through Morrison Securities you are required to read this booklet. If you place an order to buy or sell an ETO through Morrison Securities, you will be taken to have confirmed to Morrison Securities that you have read and understood this ASX booklet and this PDS.

If you have any questions on any aspect of the booklets, you should consult your financial advisor before making any investment decisions.

3.3 LEPOs

LEPOs (over equities) are essentially equity options with an exercise price of one cent per underlying share. LEPOs are European style options; in other words, they can only be exercised on the expiry date. The buyer (or taker) of a LEPO has the right to buy an agreed number of shares (typically 100 shares per LEPO contract) at a specified future date, in return for the payment of the exercise price (one cent per share). The seller (or writer) of a LEPO undertakes to sell the underlying shares at expiry in return for the exercise price. The seller (writer) of a call option is only required to deliver the underlying shares if the buyer (taker) exercises the option. When you enter into a LEPO, you do not pay (or receive) the full amount of the premium upfront. Instead, you pay or receive margins during the life of the LEPO and pay or receive the balance of the premium if and when you exercise the LEPO.

LEPOs are different from standard ETOs in a number of ways:

- LEPOs are only available as call options
- LEPOs are European style options, meaning they are only exercisable on expiry day, while standard equity options are generally American style options exercisable at any time before expiry. Refer to section 4.10 of this PDS for information about automatic exercise
- LEPOs have a very low exercise price and a much higher premium – close to the market value of the underlying share of the LEPO
- LEPOs do not require an amount equal to the full premium to be paid on purchase. Instead the buyer (taker) effectively pays a margin, which represents a small percentage of the value of the underlying shares. In standard equity options, the buyer (taker) pays the premium upfront and the seller (writer) receives the premium upfront
- Both the buyer (taker) and seller (writer) of a LEPO are subject to ongoing margining.

In summary, the premium for a LEPO will generally track the price of the underlying shares, so an investor's profit or loss will generally track movements in the underlying share on a one-for-one basis. Buying a LEPO is similar to a forward purchase of shares, while selling a LEPO is similar to a forward sale of shares. Because of their low exercise price, LEPOs trade for large premiums. The high premium exposure carries a risk similar to that of owning the shares outright, or for sellers (writers), short selling shares.

The ASX booklet entitled LEPOs: Low Exercise Price Options Explanatory Booklet is available on line at http://www.asx.com.au/documents/resources/UnderstandingLEPOs.pdf . If you cannot access the ASX booklet via the ASX website, please contact us immediately and we will arrange to forward to you by email a copy of the booklet to you at no charge.

TORESS LEPOs (Total Return Single Stock LEPOs) are a special type of LEPOs that have a cash adjustment for the dividend. The ASX Booklet for TORESS LEPOS is available from the ASX at. https://www.asx.com.au/documents/products/toress-understanding-LEPOs.pdf

Before trading in LEPOs or TORESS LEPOs through Morrison Securities you are required to read these booklets. If you place an order to buy or sell a LEPO or TORESS LEPO through Morrison Securities, you will be taken to have confirmed to Morrison Securities that you have read and understood this ASX booklet and this PDS.

3.4 About Us

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3.5 How do your orders get executed and settled?

You may only provide instructions to us in accordance with your client agreement with us. That agreement might require that, if you wish to provide us with instructions, you must do so only through an intermediary with whom we have entered an arrangement under which that person may place orders with us on behalf of clients in relation to ASX transactions (**Licensee**). That agreement might permit you to provide instructions to us directly (such as through a DMA Service) or through the relevant Licensee.

When placing the order Morrison Securities will need:

(a) your account number;
(b) details of the person giving the order;
(c) details of the stock to be dealt in;
(d) the series, specifying both the expiry day and the strike price (and if long dated the year); and
(e) whether the order is to buy or sell.

Once the order is executed, Morrison Securities will also clear the ETO or LEPO. Accordingly, Morrison Securities will make the appropriate adjustments to your cash, and holding positions, including brokerage for the transaction. You will owe your obligations in respect of any ETOs or LEPOs executed for you directly to Morrison Securities, despite the fact that a Licensee may have arranged for the relevant trade to be executed on your behalf. You will not be taken to have satisfied your obligations to Morrison Securities by making any payment or delivering documents to the Intermediary.

4. What are exchange traded option & LEPO contracts

American or European style options

ETOs may be **American** or **European style** exercise. Most ASX options are **American style** which means they are tradeable and can be exercised at any time prior to the expiry day. **European style options**, which include index options, are also tradeable but can only be exercised on the expiry day and not before.

LEPOs are European style only, which means they can only be exercised on the expiry date and not before. Further detail can be found at www.asx.com.au/documents/resources/UnderstandingLEPOs.pdf .

Taker and writers of ETOs and LEPOs

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

Payment and receipt of the premium

The taker will always pay the writer a price (the premium) to enter the ETO or LEPO. The writer receives and keeps the premium but has the obligation to buy from or sell to the taker the underlying securities at the exercise price if the taker exercises the option.

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

ETO or LEPO sellers are referred to as 'writers' because they underwrite (or willingly accept) the exercise risk of the contract. Similarly, buyers are referred to as 'takers' of an ETO or LEPO as they take up the right to buy or sell a parcel of securities. Every ETO or LEPO contract has both a taker and a writer.

Call options and put options - long and short positions

There are two types of ETOs, namely **call options** and **put options**. All option positions consist of one or more of a bought call, a sold call, a bought put, or a sold put. A long (or bought) option position is created by the purchase of a call or put. A short (or sold) position is created by the sale of a call or put. By combining two or more of these basic positions, an investor can create a trading strategy that meets a range of investment objectives, including the protection of an existing portfolio of securities. For more information on possible trading strategies we refer you to the ASX Booklet entitled Options Strategies' available on the ASX website at http://www.asx.com.au/documents/resources/UnderstandingStrategies.pdf .

Call options give the taker the right, but not the obligation, to buy a standard quantity of underlying securities at a predetermined price on or before a predetermined date. If the taker exercises their right to buy, the seller (writer) is required to sell a standard quantity of securities at the predetermined exercise price.

Put options give the taker the right, but not the obligation to sell a standard quantity of underlying securities at a predetermined price on or before a predetermined date. If the taker exercises their right to buy, the seller (writer) is required to buy a standard quantity of securities at the predetermined exercise price.

The premium is the price of the option agreed to by the buyer and seller through the market.

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

4.1 Deliverable or cash settled

ETOs and LEPOs are either deliverable or cash settled.

Most exchange traded equity options and LEPOs are deliverable, that is with physical delivery of the underlying security, while index options are cash settled.

Cash settlement occurs in accordance with the rules of ASX Clear against the Opening Price Index Calculation (**OPIC**) as calculated on the expiry date.

4.2 Standardised Contracts

ETOs and LEPOs are created by the exchange on which the underlying equity or index is listed. Morrison Securities trades ETOs in relation to entities and indices listed on ASX. The ASX website provides a list of entities and indices over which ETOs are traded; these can be found at http://www.asx.com.au/documents/products/asx_eto_market_making_scheme.pdf .

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

(a) the underlying security or underlying index;
(b) the contract size, that is, the number of units of the underlying security. The contract size is usually 100 securities per contract for equity ETOs and LEPOs
(c) the exercise price (or strike price), which is the specified price at which the taker (buyer) of an equity option can buy or sell the underlying securities. ASX sets the range of exercise prices at specific intervals according to the value of the underlying securities. It is important to note that the exercise price of an equity option may change during the life of an option if the underlying security is subject to a bonus or rights issue or other form of capital reconstruction or in some cases a special dividend or distribution. The number of underlying securities may also be subject to an adjustment; and
(d) the expiry date.

ASX may in accordance with its operating rules make an adjustment to any of the above specifications if the listed entity over which the option relates makes a pro-rata change to its ordinary capital structure (e.g. bonus issues or special dividends or distributions are to be paid). If ASX does make an adjustment it will endeavour to preserve the open positions of takers and writers at the time of the adjustment as best as possible. ASX has issued an Explanatory Guide for Option Adjustments which can be found at http://www.asx.com.au/documents/resources/explanatory_note_option_adjustments.pdf which provides further information regarding ASX option adjustments.

Full details of all ETOs and LEPOs listed on ASX and expiry date information can be found on the ASX website at https://www2.asx.com.au/markets/trade-our-derivatives-market/derivatives-market-prices/single-stock-derivatives .

Details of contract specifications for ETOs and LEPOs are published by ASX on their website at http://www.asx.com.au/products/equity-options/options-contract-specifications.htm . The contract specifications detail the key standardized features of ETOs and index options traded on ASX.

4.3 Premium

The premium (price of the option) is not set by ASX but is negotiated between the buyer and seller of the ETO or LEPO through the market.

The premium for an equity option is quoted on a cents per security basis so the dollar value payment is calculated by multiplying the premium amount by the correct multiplier for that particular series (i.e. the number of underlying securities in the contract which is usually 100). For example, if you buy 10 call option contracts with a premium quoted at 50c per security, the total premium is $500.00 (being $0.50 x 100 x 10). The premium for an index option is calculated by multiplying the premium by the index multiplier. For example, a premium of 50 points, with an index multiplier of $10, represents a total premium cost of $500 per contact.

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

Most option pricing involves the use of a mathematical formula, which includes calculating the intrinsic and time value of the particular option. You should refer to the section entitled 'Option pricing fundamentals' in the ASX Booklet Understanding 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 .

4.4 No Dividends or Entitlements

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

TORESS LEPOs provide a cash adjustment for stock dividends.

4.5 Opening/Buying/Taking an ETO or LEPO position

The establishment of a contract is referred to as opening a position. Once the taker of an ETO or LEPO has an open position, they have three alternatives:

(a) the taker can exercise the ETO or LEPO;
(b) the taker can hold the ETO or LEPO to expiry and allow it to lapse; or
(c) the taker can close out their position by selling the same ETO or LEPO. Note: at this point the open position will be closed out.

4.6 Opening/selling/Writing an ETO or LEPO

Once the seller or writer or an ETO or LEPO has an open position, they have two alternatives:

(a) let the ETO or LEPO 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
(b) close out the ETO or LEPO by buying the ETO or LEPO back before it has been exercised.

4.7 Closing out of option contracts

An option position may be 'closed out' by placing an order equal and opposite in effect to the open position to be closed. If you have a bought/long position you would sell it, if you have a sold/short position you would buy it back. This effectively cancels out the open position. An investor would close out an ETO or LEPO contract:

(a) when there is a risk of unwanted early exercise
(b) to take a profit; or
(c) to limit a loss.

It is important that you advise us (or, if you trade through an Intermediary, advise the Intermediary), when placing your order, if you are seeking to close out an existing open position. Closing out can be achieved without reference to the original party to the trade because of the process of novation. ASX Clear is able to substitute a new buyer as the contract party when an existing taker sells to close their position. The process of novation is discussed in more detail below in the section 8.1 below entitled 'Trading and clearing ETOs and LEPOs'.

Note: Morrison Securities will set all accounts to automatic exercise. This is discussed further in section 4.10 below.

4.8 Expiry

Options have a limited life span and expire on standard expiry days set by ASX Clear.

The expiry day is the day on which all unexercised options in a particular series expire and is the last day of trading for that particular series. For both equity and index options this is usually the third Thursday before the last Friday in the month. .

ASX also list some Weekly equity and index options which offer expiry dates that occur each week for the current month. However, ASX Clear has the right to change this date should the need arise.

As options expire new expiry dates are added further out.

All option classes (stock or index) with a monthly expiry have expiries generally based on the financial quarters (March, June, September and December). For example, a June expiry means that the option expires on the expiry day in June. If Thursday or Friday are not business days, the expiry day is brought forward to the next business day.

A full list of all options series available for trading is available on the ASX website, http://www.asx.com.au/products/equity-options/about-options.htm in the csv file 'Listed ETO code list' in the 'Related information' section. This list is updated daily.

You can find a useful expiry calendar and option listing guidelines on the ASX website at http://www.asx.com.au/products/equity-options/about-options.htm .

4.9 Exercise

ETO or LEPO takers make the decision to exercise the ETO option or LEPO contract. This means that a writer of an American equity option may be exercised against at any time prior to expiry.

ASX Clear will 'randomly' allocate a writer for every exercised position. This means that if the taker wants to exercise the options and either buy or sell (depending on whether it is a call or a put) at the predetermined price, then ASX randomly allocates a writer of that option and allocates the exercise against them. The writer must then accept the securities at a predetermined price for a call or sell the securities at the predetermined price for a put.

The taker of an ETO or LEPO will generally only exercise for a profit and therefore the exercise may result in a loss to the writer of the ETO or LEPO, depending on their initial costs.

Once a writer has been allocated, the writer has lost the opportunity to close out their position and must affect the delivery or cash settlement obligations for the particular equity option contract.

4.10 Automatic exercise by Morrison Securities

Morrison Securities will automatically exercise any open ETO or LEPO contract taken or bought by you if your contract is in the money at expiration of the contract.

For call options, the option will be in the money where the exercise price is below the price of the underlying securities at expiration of the call option.

For put options, the option will be in the money where the exercise price is higher than the price of the underlying securities at expiration of the put option.

All unexercised option contracts will expire on the expiry date.

4.11 Settlement

Payment for, and the delivery of underlying securities, on exercise of an open ETO contract occurs via ASX's Clearing House Electronic Sub register System (CHESS) on T+2 from date of exercise.

Morrison Securities is obliged to make payment to ASX within this timeframe (i.e. within two business days).

For cash settled index options, a cash settlement amount calculated having regard to the opening price index calculation on expiry day is paid to exercising takers on the day following the expiry date. The level used for settling index options is determined by a special formula.

If you intend to invest in index options, you should take the time to understand these arrangements.

For more information on settlement of index options see the ASX Booklet Understanding Options Trading section on 'Trading index options'.

Note: if you exercise a LEPO you are required to pay the full purchase price the following day.

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

4.12 Morrison Securities open positions limits and right to close out open positions

Under the terms of your agreement with Morrison Securities, Morrison Securities has the right to impose from time to time limits (Morrison Securities Derivatives Limits) in respect of the open ETOs and LEPOs which have been or may be sold on behalf of you or any other particular clients or clients generally. These limits may relates to ETOs or LEPOs of one or more specified series, or to ETOs or LEPOs generally.

Also under the terms of your agreement with Morrison Securities, Morrison Securities has the right in its discretion to close out (or request you to instruct the Licensee or Morrison Securities to close out) one or more open ETOs or LEPOs held in your Client Account at any time in order to ensure that the open ETOs or LEPOs sold on your behalf or on behalf of clients generally do not exceed any Morrison Securities Derivatives Limit. Morrison Securities is not liable to compensate you for any loss which may result from (or any reduction in the potential profit which you might have otherwise made but for) the closing out of an ETO or LEPO by Morrison Securities pursuant to this right.

Morrison Securities may exercise this right whether or not you have complied with its obligations to provide Morrison Securities Cover in respect of the Client's open ETOs or LEPOs as the case may be.

You must pay the costs of closing out open ETOs or LEPOs if Morrison Securities exercises this right.

5. Significant benefits of exchange traded options and LEPOs

ETOs and LEPOs confer a number of benefits which include:

(a) Risk management where investors can **hedge** (protect) their portfolio from a drop in value. Put options allow investors holding securities to hedge against a fall in price;

(b) Shareholders can **earn income** by writing call options over securities 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 securities to the taker at the exercise price;

(c) By taking a call option, the purchase price for the underlying security is locked in. This gives the call option holder **time to decide** whether or not to exercise the option and buy the securities. The holder has until the expiry date to make their decision. Likewise the taker of a put option has time to decide whether or not to sell the securities;

(d) ETOs and LEPOs benefit from standardisation and registration with a clearing and settlement facility which reduces **counterparty default risk.** This process provides the benefit that the client's position can be closed out without reference to the original counterparty and the client's risk to that counterparty is transferred to ASX Clear;

(e) **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 ETO or LEPO combinations allows investors to develop strategies regardless of the direction of the market;

(f) ETOs and LEPOs do not require a rising market to make money, rather investors can **profit from both rising, falling** and sideways markets depending on the strategy they have employed. Strategies may be complex and strategies will have different levels of risk associated with each strategy;

(g) The initial outlay for an ETO or LEPO contract is not as much as investing directly in the underlying securities. Trading in ETOs or LEPOs can allow investors to benefit from a change in the price of the security without having to pay the full price of the security. An investor can therefore purchase an ETO or LEPO (representing a larger number of underlying securities) for less outlay and still benefit from a price move in the underlying securities. The ability to make a higher return for a smaller initial outlay is called leverage. Investors however, need to understand that **leverage** can also produce increased risks (see below);

(h) Given the lower initial outlay attached to ETOs or LEPOs, investors can **diversify their portfolios and gain a broad market exposure** over a range of securities or the index itself.

6. Significant risks explained

The risk of loss in trading in ETOs and LEPOs can be substantial.

It is important that you carefully consider whether trading ETOs or LEPOs is appropriate for you in light of your investment objectives and financial circumstances.

You should only trade ETOs and LEPOs if you understand the nature of the products and the extent of your exposures to risks.

The risks attached to investing in ETOs and LEPOs will vary in degree depending on the option traded (see the risks outlined below).

The PDS does not cover every aspect of risk associated with ETOs and LEPOs. For further information concerning risks associated with ETO trading you are referred to the ASX booklet **Understanding Options Trading** and in particular the section entitled 'Risks of option trading' (the booklet can be found on the ASX website at www.asx.com.au/documents/resources/UnderstandingOptions.pdf).

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

(a) The **high level of leverage** that is obtainable in trading ETOs and LEPOs (due to the low level of initial capital outlay) can work against an investor. Depending on the market movement, the use of leverage may lead to large losses;

(b) ETOs and LEPOs have a **limited life span** as their value erodes as the option reaches its expiry date. In particular some **Weekly ETOs and LEPO**s are listed for expiry after only one week. It is therefore important to ensure that the ETO or LEPO selected meets the investor's investment objectives;

(c) ETOs and LEPOs are subject to movements in the **underlying market.** ETOs and LEPOs may fall in price or become worthless at or before expiry;

(d) The **maximum loss in taking** (buying) an ETO is the amount of premium paid. If the option expires worthless, the taker will lose the total value paid for the option (the premium) plus transaction costs.

(e) Whilst writers (sellers) of 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 securities. If the option is exercised, the writer of the option is forced to buy the underlying securities 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 securities from the taker at a price well above the current market price;

(f) Writers of ETOs and LEPOs 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 obliged to pay additional margin funds (which may be substantial and potentially unlimited) to maintain the ETO or LEPO position or upon settlement of the contract. Margins are discussed below;

(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) ASX and ASX Clear, have discretionary powers in relation to the market. They have power to **suspend the market operation,** or lift market suspension in ETOs or LEPOs while the underlying securities are in trading halt if the circumstances are appropriate, restrict exercise, terminate an ETO or LEPO 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 ETO or LEPO positions;

(i) The placing of **risk minimisation orders** may not always limit an investor's losses to the amounts that are expected. Market conditions may make it impossible for 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 affected on ASX may be subject to **dispute.** When a trade is subject to a dispute, 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. Any change or amendment to the beneficial ownership of the security can have Capital Gains tax implications;

(k) Morrison Securities has the ability to amend or **cancel the trade** as stated in our Terms of Trading and Derivatives Client Agreement. This could cause you to suffer loss or increase your loss and could have Capital Gains Tax implications. ASX has the power to cancel, amend or require the cancellation of amendment of transactions. This power can be exercised without your permission or Morrison Securities' agreement;

(l) Trades affected on ASX are traded on an electronic trading platform and cleared through ASX Clear. 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 ASX and ASX Clear;

(m) If you fail to pay an amount due from a transaction in accordance with the ASX Operating Rules, you agree that Morrison Securities has the right to sell any or all of your securities in addition to the securities which are the subject of the defaulting contract in order to offset any debt owed to Morrison Securities.

(n) Morrison Securities may exercise its right to close out (or request you to instruct the Licensee or Morrison Securities to close out) one or more open ETOs or LEPOs held in your Client Account at any time in order to ensure that the open ETOs or LEPOs sold on your behalf or on behalf of clients generally do not exceed any Morrison Securities Derivatives Limit. Such closing out of one or more of your open positions may result in a loss for you. Morrison Securities is not liable to compensate you for any loss which may result from (or any reduction in the potential profit which you might have otherwise made but for) the closing out of an ETO or LEPO by Morrison Securities pursuant to this right. Morrison Securities may exercise this right whether or not you have complied with its obligations to provide Morrison Securities Cover in respect of the Client's open ETOs or LEPOs as the case may be. Morrison Securities may also require you to pay the costs of closing out open ETOs or LEPOs if Morrison Securities exercises this right.

This PDS does not cover every aspect of risk associated with options. For further information concerning risks associated with options trading you are referred to the ASX booklet **Understanding Options Trading** and in particular the section entitled 'Risks of option trading' (the booklet can be found on the ASX website at http://www.asx.com.au/documents/resources/UnderstandingOptions.pdf).

We recommend that you consult your financial adviser or obtain other independent advice before trading in ETOs or LEPOs.

7. Fees and other costs

The exact cost of your transaction will be disclosed on your Confirmation but will consist of the charges (subject to future changes by ASX) discussed below. There may also be certain amounts that are (or may become) payable in respect of options which are discussed below.

Some fees that we charge may be tax deductible. You must confirm this with your own Tax Adviser or Accountant in relation to your specific situation.

7.1 Contract fees

ASX charges a fee per contract based on tiered fee structure effective 31 May 2021. These fees apply to buying and selling; opening or closing.

Fee Categories	($ per contract)*
ETO Single Stock 1	$0.06
ETO Single Stock 2	$0.10
ETO Single Stock 3	$0.13
ETO Single Stock 4	$0.21
ETO Single Stock 5	$0.31

* Per contract fee of $0.00 applied if option price is 1c or lower.

Each underlying will be reviewed regularly by ASX and published in their "ETO Registration Fee Tier Assignment" updates (every 6 months indicatively).

7.2 Exercise fees

ASX levies $0.05 plus $0.005 GST (or $0.055 including GST) for every contract that is exercised.

7.3 Index Options

In the case of index options, ASX charges $0.45 plus $0.045 GST (or $0.495 including GST) per contract including GST, for both the transaction and the exercise fee.

7.4 Brokerage

If you wish to trade ETOs or LEPOs through us, you will need to become a client of an intermediary (**Licensee**) with whom Morrison Securities has entered into an arrangement under which the Licensee may place orders with Morrison Securities on behalf of clients.

We (Morrison Securities) do not charge you fees for the services that we may provide to you. Instead, the relevant Licensee may charge you fees in respect of those transactions executed by Morrison Securities on your behalf. However, the Licensee (not Morrison Securities) determines the amount and structure of any such fees. The information concerning the fees which the Licensee may charge can be obtained directly from the relevant Licensee.

Morrison Securities will charge the relevant Licensee a fee for those transactions executed through ASX by Morrison Securities on your behalf (**Execution Fee**). In addition to the Execution Fee, Morrison Securities may also charge a range of fees to the Licensee including a fixed monthly fee, a fee per trade, a fee per service and other fees.

The impact of transaction costs on profitability is often greater for options transactions than for transactions in the underlying interests because these costs are often greater in relation to option premiums than in relation to the prices of underlying interests. Transaction costs are especially significant in option strategies calling for multiple purchases and sales of options such as spreads and straddles. Investors should always discuss transaction costs with their financial advisor before engaging in options transactions.

7.5 Margins

The Clearing House (**ASX Clear**) will call amounts of money known as '**margin'** from a Clearing Firm as cover. Margins are generally a feature of all exchange traded derivative products and are designed to protect the Clearing House against default. A margin is the amount calculated by the Clearing House as necessary to cover the risk of financial loss on an ETO contract due to an adverse market movement.

The seller (writer) of an ETO will ordinarily be required to pay margin in respect of that contract or provide collateral acceptable to the Clearing House. That is because the Clearing House is exposed to the risk that the seller (writer) will not perform their obligations if and when the option is exercised.

Margin requirements for option writers are complex. Margin requirements are subject to change, and may vary from time to time, at the discretion of the Clearing House. Margin requirements can have an important effect on an option writer's risks and opportunities.

7.5.1 Margins for ETOs

ASX Clear calculates margins daily using a margin calculation engine called Standard Portfolio Analysis of Risk (**SPAN**).

The total margin for ETOs is made up of two components:

1. The premium margin, which is the market value of the particular position at the close of business each day. It represents the amount that would be required to close out your position;
2. The SPAN requirement contains further margin charges and margin concessions. The SPAN requirement uses the following:
   - The **Scan Risk** – the basic evaluation of risk replicating how positions will gain or lose under particular combinations of price and volatility movements. Scan risk uses price and volatility scan ranges.
   - The **Intracommodity Spread Charge** – risk levels related to particular patterns of calendar spreading.
   - **Delivery Risk** – risk related to positions in physically deliverable products as they approach or enter their delivery period.
   - The **Intercommodity Spread Credit** – reductions to risk associated with risk offsets between associated products.
   - **Short Option Minimum** – an evaluation of the irreducible minimum risk related to portfolios.

If you have a number of option positions open, the margin calculation engine will evaluate the risk associated with your entire options portfolio and calculate your total margin obligation accordingly. It is possible that some option positions may offset others, leading to a reduction in your overall obligation.

Amounts of margin are determined daily by ASX Clear, following the close of trading each day. In times of high volatility an intraday margin call may be made by ASX Clear.

Morrison Securities is entitled to call (and may at any time call) for additional margin from you, compared to the amount that is obliged to be paid to ASX Clear – we do this as a risk management tool.

ASX Clear margin obligations may be met by paying cash or by providing certain types of eligible collateral (e.g. securities and bank guarantees). ASX Clear generally discounts the value of such collateral deposited with it to 70% of its full value as a risk management tool. This means that if the securities used by you as collateral have a market value of $10,000, only $7,000 will be counted as collateral cover for your margin obligations.

You must pay margin within 24 hours of you being advised of the margin call by us. The margining process used by ASX Clear is explained in detail in the ASX booklet **Understanding Margins** which is available on the ASX website at www.asx.com.au/documents/resources/Understanding_Margins.pdf

7.5.2 How ASX Clear calculates LEPO margins

To understand the margining process for Low Exercise Price Options (LEPOs) you should first read the LEPO Explanatory Booklet which sets out the features and benefits of LEPOs. This booklet can be downloaded from the ASX website at www.asx.com.au

Unlike ordinary exchange traded options, where only the writer is margined, with LEPOs both the taker and the writer are margined. This is because the taker of a LEPO does not pay the writer the full premium upfront. As such, the taker is margined as they have an obligation to pay the premium.

7.6 Late settlement or margin payments

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

8. Other significant characteristics of exchange traded option contracts and LEPOs

8.1 Trading and clearing ETOs and LEPOs

ETOs and LEPOs are traded on ASX's trading platform and cleared through ASX Clear. Participants of ASX must comply with the market rules of ASX. Participants who clear ETO or LEPO contracts must comply with the clearing rules of ASX Clear.

ASX Clear stands between the buying and selling brokers (the **ASX participants**) and guarantees the performance to each of them. This process is known as 'novation'. Importantly ASX Clear does not have an obligation to you, the underlying client. The rules of ASX Clear govern arrangements once a deliverable exchange traded option has been exercised.

8.2 Client Trust Accounts and Collateral

In order for us to trade an ETO or LEPO contract for you, we require you to provide us with money or securities to enable us to manage the risks associated with our dealings for you in those options.

Client money and securities paid or given by you in connection with our advising or dealing in the options must be held by us on trust in accordance with the Corporations Act and the ASX rules.

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

Morrison Securities may retain the interest (if any) earned on any moneys held for you in its trust account.

CHESS securities (held by you) may be lodged in your name with ASX Clear as collateral for margin obligations relating to ETO or LEPO trades. When CHESS securities are lodged with ASX Clear, the securities are held by ASX Clear as 'third party security'. The lodged securities cannot be used by us in relation to our dealings or for our other clients in relation to their dealings unless authorised by you as Third Party Collateral.

Securities in a client's superannuation fund cannot be used as Third Party Collateral for any other account.

8.3 National Guarantee Fund

Except in limited the circumstances National Guarantee Fund (**NGF**) protection does not apply to dealings in ETOs or LEPOs. The NGF provides investors trading in ETOs or LEPOs with protection in the following circumstances.

(a) If an option is exercised, the NGF guarantees completion of the resulting trade in certain circumstances; and

(b) If you have entrusted property to Morrison Securities in the course of dealing in options, and Morrison Securities later becomes insolvent, you may be able to 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 http://www.segc.com.au .

9. Dispute resolution system

If you have any concerns or comments about the financial service or financial products provided to you, you should take the following steps:

(a) Send your complaint in writing to the Complaints Officer at Morrison Securities, Level 7, 7 Macquarie Place Sydney NSW 2000

(b) If you have not received a satisfactory response or 45 days have elapsed you may refer the matter to Australian Financial Complaints Authority (**AFCA**). Morrison Securities is a member of the AFCA. AFCA can be contacted on 1800 931 678 or GPO Box 3, Melbourne VIC 3001 or info@afca.org.au. This service is provided to you free of charge;

(c) You may also choose to refer the matter to ASX.

(d) Alternatively, you may refer the matter to the Australian Securities and Investments Commission (**ASIC**). ASIC may be contacted on their freecall Infoline on 1300 300 630 or by fax to (03) 5177 3999 or online via their website www.asic.gov.au.

If you require further information on how complaints are handled by Morrison Securities please refer to our Financial Services Guide.

10. Significant taxation implications

You should consult your own taxation adviser before making any decisions to trade in ETOs or LEPOs.

For further information on the taxation treatment of options you are referred to the article Income Tax Treatment of Exchange Traded Options at http://www.asx.com.au/documents/products/taxation_of_exchange_traded_options_may_2011.pdf.

Disclaimer: ASX booklet provides general information. The Australian Taxation Office (ATO) may hold views that are different.

The taxation consequences of trading in ETOs and LEPOs are complex and will depend on your individual circumstances. It is therefore important that you ascertain whether you are a trader, a speculator or a hedger as the tax treatments for each may differ as discussed below.

Given we (Morrison Securities) are not a taxation adviser you should discuss any taxation issues with your Tax Adviser or Accountant before entering or disposing of an ETO or LEPO. You should be aware that there might be capital gains tax consequences. You should seek appropriate independent advice in this regard.

This PDS does not intend to cover every aspect of taxation as it relates to ETOs or LEPOs. The information below acts as a summary of significant taxation considerations that should be considered by you before investing in ETOs or LEPOs. Accordingly, you are recommended to seek professional tax advice before entering into or disposing of an ETO or LEPO.

Some fees that we charge may be tax deductible. You must confirm this with your own Tax Adviser or Accountant in relation to your specific situation.

10.1 Implications for Australian Resident Investors

Revenue Account

Writer of the Option

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

The premium received by the writer of the option will generally 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 will not 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 option by the taker.

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

Taker of the Option

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

Where this is the case, any premium paid by the taker is generally regarded as being deductible on a due and payable basis. This will generally be at the time the option is entered into. Where an option on revenue account lapses, there are no further tax implications. However, where an option on revenue account is exercised, the option strike price will form part of the acquisition cost or disposal proceeds for the underlying asset in question.

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

10.2 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 generally be determined in accordance with the Capital Gains Tax (**CGT**) provisions.

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

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

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

Exercise of a Call Option

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

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

Exercise of a Put Option

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

This may have practical implications for writers of the 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 generally be determined in accordance with the CGT provisions.

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

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

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

Exercising a Call Option

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

Exercising a Put Option

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

11. Goods and services tax

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

12. LEPOs and cash settled ETOs

For LEPOs and cash settled ETOs, the net profits approach may be regarded as the preferred tax method.

See http://www.asx.com.au/documents/products/taxation_of_exchange_traded_options_may_2011.pdf for further discussion.

13. Glossary

AFCA	Australian Financial Complaints Authority
AFSL	Australian financial services licence
American style option	An option which is tradeable and can be exercised at any time prior to the expiry day
ASIC	Australian Securities and Investments Commission
ASX	ASX Limited ABN 98 008 624 691 or the market operated by it, as the context requires
ASX Clear	ASX Clearing Pty Limited ABN 48 001 314 503, a wholly owned subsidiary of ASX
ASX Settlement	ASX Settlement Pty Ltd ABN 49 008 504 532
buyer	The buyer (the taker) the right, but not the obligation, to buy or sell the securities underlying the option at a specified price (exercise price) on, or before a predetermined date. To acquire this right, the buyer pays a premium to the writer (the seller) of the contract. When considering options over an index, the same concepts generally apply
call option	A call option gives the taker the right, but not the obligation, to buy a standard quantity of underlying securities at a predetermined price on or before a predetermined date. If the taker exercises their right to buy, the seller (writer) is required to sell a standard quantity of securities at the predetermined exercise price
CGT	capital gains tax
CHESS	ASX's Clearing House Electronic Subregister System
equity option	an ETO over securities (such as shares issued by an ASX listed company)
ETO	Exchange Traded Option
European style option	An option which is tradeable but can only be exercised on the expiry day and not before. Index options are European style options
FSG	Financial Services Guide
index option	an ETO over a market index (such as the S&P/ASX 200)
LEPO	low exercise price option
Licensee	An AFSL holder who has engaged Morrison Securities on your behalf to execute and clear transactions on ASX
long position	A long (or bought) option position is created by the purchase of a call option or a put option
Morrison Securities, we, us, our	Morrison Securities Pty Limited, ABN 50 001 430 342 AFSL No. 241737
Morrison Securities Derivatives Limits	The limits which Morrison Securities has the right to impose from time to time in respect of the open ETOs or LEPOs which have been or may be bought and/or sold on behalf of you or any other particular clients or clients generally. These limits may relate to ETOs or LEPOs of one or more specified series, or to ETOs or LEPOs generally.
NGF	National Guarantee Fund
OPIC	Opening Price Index Calculation
PDS	Product Disclosure Statement
put option	A put option gives the taker the right, but not the obligation to sell a standard quantity of underlying securities at a predetermined price on or before a predetermined date. If the taker exercises their right to buy, the seller (writer) is required to buy a standard quantity of securities at the predetermined exercise price
seller	The seller (the writer) receives and keeps the premium in respect of an ETO or LEPO, but has the obligation to buy from or sell to the taker (the seller) the underlying securities at the exercise price if the taker exercises the option. The seller (the writer) of an ETO or LEPO will ordinarily be required to pay margin in respect of that contract or provide collateral acceptable to the Clearing House
short position	A short (or sold) position is created by the sale of a call option or a put option
taker	The taker (the buyer) the right, but not the obligation, to buy or sell the securities underlying the option at a specified price (exercise price) on, or before a predetermined date. To acquire this right, the taker pays a premium to the writer (the seller) of the contract. When considering options over an index, the same concepts generally apply
TORESS LEPO	Total return single stock low exercise price option
You	The client that has been given this PDS
Weekly Options	Options listed to expire after only one week
writer	The writer (the seller) receives and keeps the premium in respect of an ETO or LEPO, but has the obligation to buy from or sell to the taker (the seller) the underlying securities at the exercise price if the taker exercises the option. The writer (the seller) of an ETO or LEPO will ordinarily be required to pay margin in respect of that contract or provide collateral acceptable to the Clearing House