

Morrison Securities ETO Target Market Determination v3

Issuer	Morrison Securities Pty Limited ABN 50 001 430 342 AFSL 241737 (“ Morrisons ”)
Product	Exchange traded options (ETOs) are listed derivative products traded on the Australian Stock Exchange (ASX).
Date of TMD	14 August 2023
Overview of this document	<p>This document is a target market determination for the purposes of section 994B of the <i>Corporations Act 2001</i> (Cth) Target Market Determinations (“TMD”) for design and distribution obligations (“DDO”) in respect of ETOs issued by Morrisons.</p> <p>This document is not a product disclosure statement (PDS) and does not take into account any individuals investment objectives, financial situation or needs. You should refer to our PDS at https://www.morrisonsecurities.com/wp-content/uploads/2021/06/ETO-Product-Disclosure-Statement.pdf and consider obtaining independent financial product advice before deciding to invest in ETOs</p>
Retail clients for whom ETOs are unsuitable	<p>ETOs will not be suitable for retail clients outside the target market. Potential categories would include:</p> <ul style="list-style-type: none"> • Retail clients who do not understand the risks of ETOs as applicable to their proposed trading; and • Retail clients who would experience material impact on their standard of living in the event they incurred losses.
Overview of ETOs	<p>ETOs are options quoted on the ASX. The underlying product can be an individual financial product, such as a quoted share or other financial product, or an index.</p> <p>There are three main reasons why retail clients may trade via ETOs:</p> <ul style="list-style-type: none"> • to reduce risk by hedging against other exposures (e.g. acquiring an ETO over shares the client already holds), or to lock in a price to purchase or sell underlying investments; • to earn increased income by obtaining premium from selling ETO’s; or • to seek to make profits from trading. <p>ETOs are subject to significant risks, including but not limited to:</p> <ul style="list-style-type: none"> • Buyers of ETOs may lose their entire premium (i.e. the entire up-front amount invested) if the ETO is not in-the-money at the time of exercise. Depending on the strategy used, losses can be substantial; • Generally speaking, ETOs are not suitable for retail investors

	<p>who would experience material personal hardship in the event they incurred losses.</p> <ul style="list-style-type: none"> • ETOs are also typically only suitable for investors who have experience and understanding of the product; • ETOs are a leveraged instrument. Leverage can magnify losses as well as gains. In other words, a high degree of leverage involved in many ETOs can work against buyers and sellers, multiplying their losses if the market moves against them; • ETOs have a limited life span and will expire. Their time value falls as they approach their expiry date, and they are worth nothing after they expire (if unexercised). Accordingly, buyers of ETOs should actively manage their open positions, particularly as expiry dates approach; • Sellers of options (and buyers of low exercise price options (LEPOs)) are exposed to potential margin calls, which may require cash or other assets to be lodged at short notice; and • Sellers of uncovered ETOs are exposed to potential material risk, including material losses for sellers of uncovered put options and potentially unlimited losses for sellers of uncovered call options. <p>It should also be noted that under the ASX Clear Operating Rules (Rules) (paragraph 5.3 of Schedule 5), a client wishing to trade in ETOs is required to acknowledge that:</p> <ul style="list-style-type: none"> • they have read and understood the documents (if any) given to them under Rule 7.1.1(b) of the Rules; • dealing in derivatives incurs a risk of loss as well as a potential for profit; and • they have given consideration to its objectives, financial situation and needs and formed the opinion that dealing in derivatives is suitable for their purposes. <p>Further details in relation to risks and potential for loss associated with ETOs are in our PDS.</p>
<p>Target Market for ETOs (s994B(5)(b))</p>	<p>Given the diverse nature of different ETO strategies, we consider that the target market for ETOs is a retail client that falls within one (or more) of the below categories, noting there may also be some overlap between categories:</p> <ul style="list-style-type: none"> • High Risk Tolerance Investors – retail clients seeking to make profit via speculation in ETOs; • Defined Risk Investors – retail clients seeking to make profit via speculation in ETOs strategies with defined/limited loss potential. • Premium Generation Investors – retail clients seeking to earn income by selling call options covered by holdings of underlying assets or cash equivalents in the case of selling

	<p>puts; and</p> <ul style="list-style-type: none"> • Risk Mitigation Investors – retail clients seeking to hedge potential risk from other investments or exposures, or lock in a price to purchase or sell underlying investments. <p>Note a retail client need only fall within one or more of the above categories to be within the target market for ETOs.</p>
<p>Likely objectives, financial situation and needs of retail clients in the target market</p>	<p>High Risk Tolerance Investors are retail clients likely to have a higher risk appetite and who are seeking higher returns through riskier strategies and are prepared to suffer material losses (and able to withstand such losses).</p> <ul style="list-style-type: none"> • <u>Likely objectives</u>: Use existing assets to support leverage in order to seek higher returns with corresponding higher risk. • <u>Likely financial situation</u>: Have a relatively high and regular income and/or substantial holdings of capital available for investment. Are able to withstand losses from trading without causing distress or material impact on living standards. Have available liquid assets to fund potential margin calls. Have a good understanding of ETOs and trading strategies. • <u>Likely needs</u>: Wish to use spare capital to make enhanced returns. <p>Defined Risk Investors are retail clients who are likely to have a moderate risk appetite and who are seeking to increase returns utilizing strategies with defined/limited loss potential and can withstand such losses.</p> <ul style="list-style-type: none"> • <u>Likely objectives</u>: Increase returns by utilising strategies with defined/limited loss potential. • <u>Likely financial situation</u>: Are able to withstand losses from trading without causing distress or material impact on living standards. Have available liquid assets to fund defined/limited loss potential. Have a good understanding of ETOs and trading strategies. • <u>Likely needs</u>: Wish to increase returns and mitigate unlimited loss potential. <p>Premium Generation Investors are likely to be retail clients with a moderate risk appetite who are looking to increase their yield but prepared to have the options exercised against them.</p> <ul style="list-style-type: none"> • <u>Likely objectives</u>: Increase their income return. • <u>Likely financial situation</u>: Hold existing positions in underlying stocks or cash equivalent in the case of a put. Require a regular income. Are able to address capital gains tax position if ETOs sold by the retail client are exercised against. • <u>Likely needs</u>: Increase income return.

	<p>Risk Mitigation Investors are retail clients who are likely to be relatively risk averse and are looking to protect previous gains, lock in purchase or sale prices, or mitigate against potential future losses.</p> <ul style="list-style-type: none"> • <u>Likely objectives:</u> Protect previous gains or mitigate against potential future losses and/or lower the cost of acquiring underlying assets. • <u>Likely financial situation:</u> Have existing investments or exposures which the retail client wishes to hedge. • <u>Likely needs:</u> Loss or profit protection.
<p>Different ETO strategies</p>	<p>We expect High Risk Tolerance Investors will be likely to engage in the following strategies:</p> <ul style="list-style-type: none"> • Buying call options and put options (noting that these financial products, of themselves, may not be particularly high risk depending upon the circumstances) (Level 1 ETOs); • Selling covered call and put options (Level 2 ETOs); • Buying or selling spreads, noting that these strategies have defined/limited loss potential (Level 3 ETOs); and • Selling uncovered options (both put options and call options) and trading in LEPOs (Level 4 ETOs and LEPOs). <p>We expect Defined Risk Investors will be likely trading in Level 1, 2 and 3 ETOs</p> <p>We expect Premium Generation Investors will be likely trading in Level 1, 2 ETOs.</p> <p>We expect Risk Mitigation Investors will be likely trading in Level 1 ETOs.</p> <p>Finally, we consider that the target market for ETOs includes any retail client whose open ETO position are being closed out at any time (whether on the instruction of the retail client, due to the exercise of rights by us, by action of ASX group, or otherwise), even if that retail client would not otherwise fall within a category within the target market.</p>

<p>Explanation of why ETOs are likely to be consistent with the likely objectives, financial situation and needs of the target market (s994B(8))</p>	<p>We expect that Level 1, 2, 3 and 4 ETOs and LEPOs will likely be consistent with the likely objectives, financial situation and needs of High Risk Tolerance Investors because these products offer the potential for enhanced returns, and this class of retail client should be able to bear any potential losses without material hardship.</p> <p>We expect that Level 1, 2 and 3 ETOs will likely be consistent with the likely objectives, financial situation and needs of Defined Risk Investors because these products offer the potential for increased returns by using strategies with limited loss potential and this class of retail client should be able to bear any potential losses without material hardship.</p> <p>We expect that Level 1, 2 ETOs will likely be consistent with the likely objectives, financial situation and needs of Premium Generation Investors because these products offer the potential for increased income, and this class of retail client should be able to bear any consequences of their ETOs being exercised against without material hardship.</p> <p>We expect that Level 1 ETOs will likely be consistent with the likely objectives, financial situation and needs of Risk Mitigation Investors because these products offer exposure to financial products with losses limited to the options premium and the ability to protect or lock-in any previous profits from an underlying investment and/or protect against future losses.</p>
<p>Distribution Conditions (s994B(5)(c))</p>	<p>No third-party distribution of ETOs issued by Morrison Securities is permitted without there being an Intermediary Agreement, and any associated amendments in relation to DDO between the AFS licensee and Morrisons. The AFS licensee is an Intermediary and the retail clients are clients of the Intermediary.</p> <p>No Intermediary is permitted to distribute ETOs issued by Morrisons to retail clients unless the Intermediary considers on reasonable grounds that each relevant retail client is likely to be within the target market.</p> <p>All Intermediaries transacting in ETOs issued by Morrisons must only do so in accordance with the client suitability and understanding procedures specified by Morrison Securities.</p> <p>Intermediaries must establish, implement and maintain appropriate procedures, processes and controls with a view of ensuring that the ETOs are distributed in accordance with this TMD.</p> <p>Morrisons does not transact in ETOs with retail clients directly. All retail clients must transact through an Intermediary.</p>
<p>Review Triggers (s994B(5)(d))</p>	<p>The review triggers that may suggest that the TMD is no longer appropriate, such that a review of the TMD should be undertaken, include:</p> <ul style="list-style-type: none"> • We become aware of a significant issuance or distribution of the product to retail clients outside the target market; • Material changes to the ETO product construct by ASX group; • Material changes to law affecting ETOs; • We become aware of a significant volume of complaints related to this TMD from retail clients; and/or

	<ul style="list-style-type: none"> We become aware of any other event that would materially affect a factor taken into account in making this TMD for ETOs. 									
Review Periods (s994B(5)(e), (f))	This TMD must be reviewed at least annually from the date of this TMD, and more frequently if a review trigger occurs.									
Distributor Reporting Requirements (s994B(5)(g), (h))	<p>The following information must be provided by the Intermediary to Morrisons as TMD Issuer by distributors who engage in retail product distribution conduct in relation to this product:</p> <table border="1"> <thead> <tr> <th>Type of information</th> <th>Description</th> <th>Reporting period</th> </tr> </thead> <tbody> <tr> <td>Complaints relating to TMD</td> <td>Details of the nature of the complaint to relating to an ETO.</td> <td>Complaints related to the options TMD are to be reported to us within 5 business days of receiving the complaint.</td> </tr> <tr> <td>Significant Dealing(s) Reports outside the target market</td> <td>Date range of the significant dealing(s) and description of the extent and nature of the significant dealing.</td> <td>As soon as practicable, and in any case within 10 business days after becoming aware.</td> </tr> </tbody> </table>	Type of information	Description	Reporting period	Complaints relating to TMD	Details of the nature of the complaint to relating to an ETO.	Complaints related to the options TMD are to be reported to us within 5 business days of receiving the complaint.	Significant Dealing(s) Reports outside the target market	Date range of the significant dealing(s) and description of the extent and nature of the significant dealing.	As soon as practicable, and in any case within 10 business days after becoming aware.
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