

**INTERACTIVE BROKERS AUSTRALIA PTY LTD**

**ABN 98 166 929 568**

**AFSL 453554**

**EXCHANGE TRADED OPTIONS  
PRODUCT DISCLOSURE STATEMENT**

**Date of Issue: 1 June 2017**

## IMPORTANT INFORMATION

This Product Disclosure Statement (PDS) has been prepared without taking into account your objectives, financial situations or needs. Therefore, before trading in the products referred to in this PDS you should:

- Read and consider all sections carefully and be satisfied that any trading you propose to undertake in relation to the products describe herein is appropriate in view of your objectives, financial situation and needs;
- Read the explanatory material published by the relevant exchange upon which the products described in this PDS trades. For example, in respect of ASX traded options, you should read the ASX explanatory booklet "Understanding Options Trading" which is available on our website and on the ASX website;
- Ensure you understand the contract specifications for the products you are proposing to trade;
- Ensure you understand your obligations and rights under the terms and conditions governing trading with us;
- Understand that the risk of loss in trading in exchange traded options (Options) can be substantial and carefully consider whether trading in Options is appropriate for you in light of your personal investment objectives, financial circumstances and needs. Options are not suitable for some retail investors; and,
- Only trade Options if you understand the nature of the products and the extent of your exposure to risks.

Although the information in this PDS is up to date as at the date of publication, it is subject to change from time to time. Where such changes are not materially adverse, we may provide updates on our website. Certain changes to this PDS may require that we issue a new PDS or a supplementary PDS. The latest version of this PDS, including any updates and any supplementary PDS will be available on our website at [www.interactivebrokers.com.au](http://www.interactivebrokers.com.au) (under Forms and Disclosures > Disclosures).

This PDS is an important document and we recommend you contact us should you have any questions on its contents. You should retain a copy of this PDS for your records.

If you received this document electronically we will provide a paper copy free on request.

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## 1. INTRODUCTION

### 1.1 Purpose of this PDS

This PDS has been prepared by Interactive Brokers Australia Pty Ltd (“IBA”) ABN 98 166 929 568, AFSL No. 453554. In this PDS when we use terms ‘we’, ‘us’ or ‘our’, the reference is to IBA. For the purpose of the Corporations Act 2001, we are the issuer of Options (“Products”) described in this PDS.

The information in this PDS does not take into account your personal objectives, financial situation and needs. This PDS is designed to assist you in deciding whether the Options referred to herein are appropriate for your needs and in comparing it with other financial products you may be considering. It is not a substitute for independent professional advice. If you require any legal, taxation or other advice we recommend that you seek such advice prior to opening an account with IBA and or trading the products described in this PDS.

### 1.2 Offer made to clients of IBA in Australia

This PDS and the Options described in this PDS are available to persons in Australia who are clients of IBA. The distribution of this PDS in a jurisdiction outside of Australia may be restricted by the laws of that place. This PDS does not constitute an offer or invitation in any place where, or to any person whom, such offer or invitation would not be lawful according to the laws of the relevant place. Persons who come into possession of this PDS in a place that is not Australia should seek independent advice as to what prohibitions or restrictions apply to them in relation to the products described herein, if any.

If you consult or have engaged a Financial Adviser or Broker or any other third party you should obtain a copy of their FSG. IBA does not endorse any representations made by any third party about us or the Products described in this PDS.

### 1.3 About Interactive Brokers Australia Pty Ltd

IBA is an affiliate of Interactive Brokers corporate group (“IBKR”), a global electronic broker, specializing in routing orders and executing and processing trades in securities, futures and foreign exchange instruments. IBKR affiliates conduct business on more than 135 electronic exchanges and trading venues around the world. IBA is regulated by the Australian Securities and Investment Commission (ASIC) and holds an Australian Financial Services licence no. 453554, under which it is authorised to issue and deal in derivatives (including the Options described in this PDS) on behalf of retail and wholesale clients. IBA is also a participant of ASX, Cboe Australia and ASX24 markets and a Clearing Participant of ASX Clear and ASX Clear.

For further information about IBA, you should read our Financial Services Guide (FSG) and the other information about the services we provide available from our website.

Our contact details are as follows:

**Registered and business address:**

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Level 40, Grosvenor Place  
225 George Street  
Sydney NSW 2000  
Australia

<b>Postal Address</b>	Interactive Brokers Australia Pty Ltd PO Box R229 Royal Exchange NSW 1225 Australia
<b>Web:</b>	<a href="http://www.interactivebrokers.com.au">www.interactivebrokers.com.au</a>
<b>Email</b>	Inbound communications via commercial E-mail are not support due to security concerns.  You may submit an inquiry <a href="#">here</a> .
<b>Telephone:</b>	+61 (2) 8093 7300
<b>Fax:</b>	+61 (2) 8093 7310

#### 1.4 Terms applying to the Products offered in this PDS

The terms governing the agreement between you and us in relation to the Products described in this PDS include: our general terms and conditions, this PDS and the contract specifications for the Products offered in this PDS as published by the relevant exchange on which they trade.

Product contract specifications (or links to the relevant exchange which publishes such information) are available on our website. Our website also contains important details about the relevant exchange (financial market) on which particular product trades, the costs associated with trading and details about the margin requirements that you must meet at all times to maintain positions in the Products.

You should also be aware that there may be important differences in the practices, procedures and regulations of markets from one country to another and one exchange to another.

## 2. WHAT PRODUCTS DOES THIS PDS COVER?

This PDS relates to Options available on a range of exchanges, including the market operated by ASX Limited (ACN 008 624 691) (**ASX**) and numerous international derivative exchanges outside of Australia (**International Exchanges**).

In broad terms, Options are a type of derivative which gives the buyer of the option (sometimes referred to as the taker) the right, but not the obligation, to buy or sell the underlying at a specified price on or before a specified date. On the opposite side, the seller (sometimes referred to as the option writer), has the obligation to perform the contract, that is, either buy or sell the underlying.

### 2.1 Types of Options

The Options offered under this PDS fall into three categories:

- 1) **Equity options:** Equity options are options over financial products quoted on the ASX or an International Exchange, for example shares of listed companies, managed investment schemes (MIS) including Exchange Traded Funds (ETFs).

On ASX and International Exchanges, equity options are "deliverable" options in the sense that, on exercise, one party must take "delivery" of the underlying security.

- 2) **Index options:** Index options are options over an index such as the S&P™/ASX 200™ Index, FTSE 100 ®, or the Nasdaq-100 ®.

Index options are "cash settled" options in the sense that, on exercise of an option, the buyer of the option will have the right to receive an amount of money and the writer will have a corresponding obligation to pay that amount (provided the option is "in-the-money"). The amount of money will be determined by the difference between the exercise level (set by the relevant exchange) and the settlement mechanism determined by the International Exchange or the clearing house of the International Exchange responsible for the clearing and settlement of Options (Clearing House).

- 3) **Currency Options:** Exchange traded currency options (sometimes called foreign exchange options or FX options) are options over an underlying currency quoted against another currency. For instance in the USD/AUD currency pair, the USD is referred to as the "base currency" and the AUD is the "quote", "terms" or "counter" currency. The underlying value of the option, and settlement amount you receive on exercise, is essentially determined with reference to the difference in the exchange rate between the base and quote currencies when the contract was struck and expiry.

Currency options by their nature are "cash settled" (in that settlement occurs via a payment of money) and settle similar to index options. The obvious difference being that the settlement amount is determined by the difference in exchange rate between the base and quote currencies and the settlement mechanism determined by the International Exchange or the clearing house of the International Exchange responsible for the clearing and settlement of Options.

This PDS only covers exchange traded currency options and does not cover over-the-counter (OTC) FX or currency options.

*Important: IBA currently only holds certain limited currencies on behalf of its clients. If a dealing in an Option on your behalf is required to be paid for or settles in a currency which IBA does not support, we will undertake on your behalf a spot foreign exchange transaction to meet your settlement obligations for any such transaction or to convert any realised proceeds to a currency which IBA holds. Please refer to IBA's FSG for further details*

The full list of Options currently available through IBA is set out on its website at [www.interactivebrokers.com.au](http://www.interactivebrokers.com.au) under Trading >> Products >> Product Listings and selecting "Options". Existing clients of IBA may also search for Options which they may trade through IBA's online trading platform Trader Workstation (TWS).

## 2.2 Understanding some concepts

Concepts which should be understood before trading in Options are:

- The effect that time has on a position/strategy;
- How volatility of the underlying, both up and down movements, may affect the price or value of an option and the potential outcome;
- How to calculate margins and worst-case scenarios for any position;

- The likelihood of early exercise and the most probable timing of such an event;
- The effect of dividends and capital reconstructions on an options position;
- The liquidity of an option, the role of market makers, and the effect this may have on your ability to enter and exit a position.

Whilst this PDS provides product information including information about the risks, characteristics and benefits of Options, you must inform yourself of, and if necessary obtain advice about, the specific risks, characteristics and benefits of the Option they intend to trade and rules of the relevant exchange on which the Options are traded.

### 2.3 Uses of Options

Options are a financial product which investors may use to:

- hedge against fluctuations in their underlying share portfolio or against foreign currency (FX) exposures or future cash flows an investor may have;
- increase the income earned from their portfolio (through the earning of premium income); and
- profit from speculation on share, index or FX markets.

The inherent flexibility in an Option stems from the fact that they enable a person to both buy (take) and sell (write) an option contract and undertake multiple positions targeting specific movements in the overall market and, in individual underlying shares (in the case of equity Options) or in a particular market segment (for index Options, provided that segment is covered by an index). Similarly, currency options can be used to trade a particular view on a currency.

Options may provide investors with a greater flexibility to take advantage of rising, falling and neutral markets. However, both the purchase and sale of Options involves risks which are discussed in more detail in section 5.

## 3. BASIC FEATURES OF EXCHANGE TRADED OPTIONS

The following information is not a detailed discussion of the features of the Options; instead, it identifies some of the key features of Options. For a more detailed description in relation to Options traded on ASX, you should refer to the ASX explanatory booklets referred to in section 4. For Options traded on International Markets outside of Australia, you should refer to the relevant information set out by the applicable International Exchange.

### 3.1 Deliverable or cash settled

Options are either ***deliverable*** or ***cash settled***.

Options are described as ***deliverable*** where the obligations of the buyer and seller are settled by the "delivery" of the underlying share or currency. Equity options are deliverable, because on exercise, one party is required to transfer the underlying shares to the other at the exercise price.

Options are described as ***cash settled*** where the obligations of the buyer and seller are settled by the buyer and seller settling their obligations by the payment and receipt of a cash amount. Index options are cash settled.



Currency may be either cash settled or deliverable. Generally, currency options will be cash settled in the trading currency of the option.

*Important: IBA currently only holds certain currencies on behalf of its customers. If your dealing in a Product settles in a currency which IBA does not hold, we will undertake on your behalf a spot foreign exchange conversion to convert the proceeds to a currency which IBA holds. Please refer to IBA's FSG for further details.*

### 3.2 Options are an international product

Option contracts are traded on ASX and a number of International Exchanges overseas. Your obligations and contract requirements will differ according to the specific rules of the relevant exchange on which the Product trades, and you will need to understand how this affects you. It is therefore important that you ask your Financial Adviser or Broker for information about any International Exchange on which you wish to trade or seek such information out yourself prior to trading the Products. See also section 4 below for more information

### 3.3 Duration of Options

Option contracts may have a product tenor of up to several years. Exchange traded Option contracts generally have contract maturity dates which follow a pre-determined cycle (standardisation is discussed in 3.4 below).

### 3.4 Options are standardised

The terms and specifications of Options (other than the premium, which is negotiated between the buyer and seller) are determined by the relevant exchange, for example ASX or the particular International Exchange, in accordance with operating rules of such exchange.

**It is important that you review the contract specification for any options you propose to trade before you do so.**

In relation to Options traded on ASX, details of contract specifications for Options are published by the ASX on their website at <http://www.asx.com.au/products/equity-options/options-contract-specifications.htm>. The contract specifications detail the key standardised features of Options traded on ASX.

The relevant International Exchange determines the key contract specifications for each series of Options traded on the exchange and will publish the details on its website. You may refer to IBA's website for further information about any particular option you might wish trade at [www.interactivebrokers.com.au](http://www.interactivebrokers.com.au) under Trading >> Products >> Product Listings for further details.

For example, in the context of equity options the relevant exchange will determine:

- the underlying share (e.g. BHP);
- whether the option is a call option or a put option (refer below to an explanation of call and put options);
- the contract size (that is, the number of units of the underlying share to which the option relates) – when an exchange traded equity option series is first opened by ASX for trading, the contract size is usually 100 (e.g. 100 BHP shares);
- exercise style – that is American style (exercisable at any time) or European style (exercisable at specific set date);

- the exercise price (or strike price) – this is the specified price at which the taker (buyer) of an equity option can, if they exercise the option, buy (in the case of a call option) or sell (in the case of a put option) the underlying shares; and
- the expiry date of the particular option – Options have a limited predetermined life and will expire on specific dates.

For index options, the relevant parameters will also be set by the relevant Exchange, including:

- the underlying index,
- the index multiplier,
- the exercise style (which is generally European),
- the exercise level of the option; and
- the expiry date.

Currency options use the same parameters as equity options and index options. (E.g. call option, put option, strike or exercise price, and expiration). The main difference relates to the underlying, which in the case of a currency option is a currency pair.

Since all Options contracts for a given future month in the same market are interchangeable, they can be closed out against an opposite position in the same contract. An investor who has bought a given options contract can cancel the position by selling that same contract. The net result is that the trader no longer holds a position. Similarly, an investor who has sold a given Options contract can cancel the position by buying the same contract.

In each case there will be a profit or loss equal to the difference between the buying and selling prices multiplied by the standard contract amount less any transaction costs.

We provide some further explanation on the following concepts, contract size, exercise style, exercise price and expiry date, below.

### 3.5 Execution arrangements for Options

IBA is a participant of ASX, CboeAustralia and ASX24. Therefore, when you place an order to buy or sell Options on International Exchanges, IBA will arrange for the execution of that order by a participant of the relevant International Exchange (which may be an affiliate of IBA's within IBKR).

### 3.6 Clearing arrangements and the role of the Clearing House

ASX and International Exchanges will generally have a central counterparty for clearing transactions entered into on the relevant exchange, typically this is referred to as the "Clearing House". Clearing Houses clear and settle the transaction in Products executed on the relevant exchange. The primary role of the Clearing House is to guarantee the settlement of obligations arising under the contracts registered with it. This means that when your broker buys or sells an option contract on your behalf, neither you nor your broker needs to be concerned with the credit worthiness of the broker taking the other side of the contract.

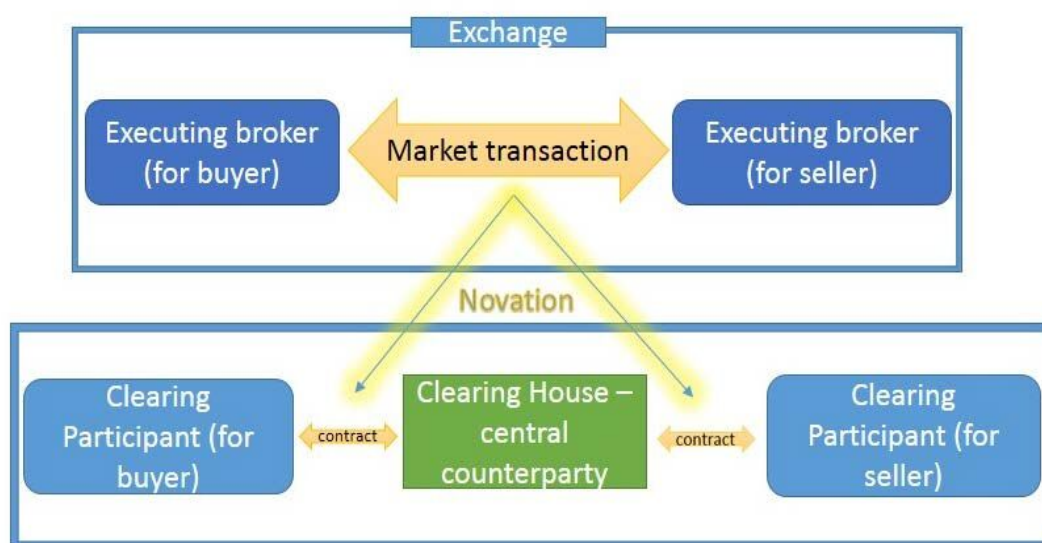
See below for further discussion on the novation process that occurs at the Clearing House.

The ASX Clearing House is ASX Clear Pty Ltd ("**ASX Clear**"). IBA is a Clearing Participant of ASX Clear. IBA is **not** a member of any Clearing Houses for transactions on International Exchanges. For Options transactions on an International Exchange, IBA will arrange, directly or via an affiliate, with a participant of the relevant clearing house

(which may be an affiliate of IBA's within IBKR to clear Options transactions entered into on your behalf. Clearing Participants are bound by the operating rules of the relevant market and Clearing House (Clearing Rules).

When an Options contract is registered with the Clearing House, the original contract is, in most markets including ASX, terminated and replaced by two contracts (assume they are called contract A and contract B for the purposes of this explanation). Contract A is between the Clearing Participant who clears the contract for the buyer of the Option contract and the Clearing House. Contract B is between the Clearing Participant who clears the contract for the seller of the Option contract and the Clearing House. In this way, the Clearing House becomes the counter-party to both contract A and B. This process of registration and creation of the two new contracts is known as "novation".

In simple terms, the Clearing House becomes the buyer to the selling broker, and the seller to the buying broker (**see diagram below**).



In this way, the Clearing House becomes the counter-party to both contract A and B. This process of registration and creation of two new contracts is known as "novation" and is described briefly in the section entitled "You and your broker" in the ASX booklet, "**Understanding Options Trading**" available at the link provided in section 6.1.

You, as our client, are not party to either Contract A or B which are actually registered with the Clearing House. Although we may act on your instructions and for your benefit, upon registration of the Option contract with the Clearing House in the name of the Clearing Participant, the Clearing Participant (which may be IBA or a participant of a Clearing House) incurs obligations to the Clearing House as principal, even though the contract may have been entered into on your instructions.

The Clearing House ensures that it is able to meet its obligation to Clearing Participants by calling a deposit known as the "**Initial Margin**" and additional deposits known as "**Variation Margin**" to cover any unrealised losses in the market. See sections 3.9 to 3.11 for further information on margins.

As a Clearing Participant of ASX Clear, IBA maintain positions in Options entered into on your behalf in an individual segregated account in accordance with the rules of ASX Clear. For Options transactions executed and cleared on exchanges outside of Australia, the benefit of the Options contract will be held by the relevant Clearing Participant for its

client (which may be IBA or an affiliate of IBA's) in an omnibus account (together with the other clients of the participant). IBA will hold the benefit of open positions for you.

### 3.7 **Sellers (writers) and Buyers (takers)**

Every Option contract has both a **Buyer (taker)** and a **Seller (writer)**.

Buyers are referred to as "**takers**" of an Option as they take up the right to exercise the option (for example, the right (but not the obligation) to exercise the option and either buy or sell the underlying shares at the exercise price, in the case of an equity option).

Sellers of Options are referred to as "**writers**" because they underwrite (or willingly accept) the obligations which are required to be performed on exercise of the option (for example, to buy or sell the underlying shares at the exercise price, in the case of an equity option).

### 3.8 **Call options and put options**

In this section we provide information on the varieties of Options (call options or put options) and the differences between equity options, index options or currency options.

- **Equity options**

**Call options** give the buyer (taker) the right, but not the obligation, to buy a standard quantity of underlying shares at a predetermined price on or before a predetermined date. If the taker exercises their right to buy, the seller (writer) to which the exercise notice is assigned by the Clearing House is required to sell the standard quantity of shares at the predetermined exercise price.

**Put options** give the buyer (taker) the right, but not the obligation, to sell a standard quantity of underlying shares at a predetermined price on or before a predetermined date. If the taker exercises their right to sell, the seller (writer) to which the exercise notice is assigned by the Clearing House is required to buy the standard quantity of shares at the predetermined exercise price.

- **Index options**

**Call options** (in the case of index options) give the buyer (taker) the right, but not the obligation, to exercise the option. If the closing level of the index exceeds the exercise level of the index option, the taker will, on exercise of the option, have the right to receive an amount of money which is determined by multiplying the difference between the closing level and the exercise level by the index multiplier specified by the ASX or International Exchange. If the taker exercises the option, the seller (writer) to which the exercise notice is assigned by the Clearing House has the obligation and is required to pay the corresponding amount.

**Put options** (in the case of index options) give the buyer (taker) the right, but not the obligation to exercise the option. If the closing level of the index is less than the exercise level of the index option, the taker will, on exercise of the option, have the right to receive an amount of money which is determined by multiplying the difference between the closing level and the exercise level by the index multiplier specified by the ASX or International Exchange. If the taker exercises the option, the seller (writer) to which the exercise notice is assigned by the Clearing House has the obligation and is required to pay the corresponding amount.

- **Currency options**

**Call options** (in the currency options) give the buyer (taker) the right, but not the obligation, to exercise the option. Call options give the taker the right to purchase the underlying currency at the strike price. If the closing level of the of the reference rate (sometimes referred to as the settlement value) is higher than the strike price, the taker will, on exercise of the option have the right to receive a cash payment determined by multiplying the difference between the reference rate (settlement value) and the strike price by the rate multiplier specified by the International Exchange. If the taker exercises the option, the seller (writer) to which the exercise notice is assigned by the Clearing House has the obligation and is required to pay the corresponding amount.

**Put options** (in the case of currency options) give the buyer (taker) the right, but not the obligation to exercise the option. If the closing level of the of the reference rate (sometimes referred to as the settlement value) is lower than the strike price, the taker will, on exercise of the option have the right to receive a cash payment determined by multiplying the difference between the reference rate (settlement value) and the strike price by the rate multiplier specified by the International Exchange. If the taker exercises the option, the seller (writer) to which the exercise notice is assigned by the Clearing House has the obligation and is required to pay the corresponding amount.

### 3.9 Quotation of currencies in the spot market

It is important that you understand how foreign currency is quoted in order to understand how foreign currency options operate.

Basic foreign exchange quotes will be in the basic form of ABC/XYZ. In this example, ABC is the base currency and XYZ is the quote currency. The convention refers to how many units of XYZ is equal to one unit of ABC. For instance, the quote may be expressed as ABC/XYZ 1.12. This means that in this quote, every 1 unit of ABC equals 1.12 of XYZ, or the exchange rate of ABC to XYZ is 1 to 1.12.

In the context of currency options, the strike price (see further below) of a currency option represents an exchange rate of the base and quoted currencies.

### 3.10 Exercise style – American or European

Options may be **American** or **European** exercise style.

**American style** options can be exercised at any time prior to and including the expiry day.

**European style** options can only be exercised on the expiry day and not before.

Most ASX exchange traded equity options are American style options. ASX exchange traded index options are European style. Currency options on International Exchanges are *usually* European style options.

### 3.11 Option contracts which are open for trading

Details of the Options available on an exchange are commonly available on the IBA's website and also the website of the relevant exchanges.

For example, details of Options listed on ASX and expiry date information can be found on the ASX website at <http://www.asx.com.au/products/equity-options.htm> or alternatively through information vendors or newspapers. A list of current option codes

and delayed price information is available on the ASX website at <http://www.asx.com.au/products/equity-options/options-data.htm>.

Details of the previous day's trading for ASX Options are published in summary form in the Australian Financial Review and more comprehensively in The Australian. If you cannot access the above information, please contact us and we will arrange to provide you with the information.

### 3.12 Opening an Option position

Unlike shares, Options are not instruments which a person buys or sells in the ordinary sense. The relevant exchange sets the terms of the Options and, if we enter into a contract for you (or instruct another broker to do so on our behalf for you), as Buyer (taker) or Seller (writer), we are regarded as having "opened" the contract for you.

If you have opened a position as the taker of an Option, you have three alternatives:

1. You can exercise the option.
2. You can hold the option to expiry and allow it to lapse.
3. You can close out the position by selling (writing) an option in the same series and instructing us to "close out" the open position.

If you have opened a position as the writer of an Option, you have two alternatives:

1. You can 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).
2. You can close out the option by buying (taking) an option in the same series (provided it has not been exercised against).

### 3.13 Closing out an Option position

Options are generally not "transferrable" like an equity holding (e.g. a stock/share) and in order to dispose of your position in an Option, you need to "close out" that position. Options are closed out by entering into an option in the same series but in the opposite position. For example, if you have an open position in an option as a Buyer (taker), you close out that position by entering into an option in the same series as a Seller (writer). The contracts are "closed out" as the open position as Buyer cancels out the open position as Seller. In order to close out the entire position, you need to enter the exact same number of contracts as Seller as you hold as Buyer as any difference may leave open a residual position or create a new opposite position. Any profit on the close out is payable to you and any loss on the close out is payable by you.

An investor might elect to close out an open option contract in the following scenarios:

- The Seller (writer) of an option may want to close out the option (by taking an option in the same series) to avoid the risk of having a Buyer's (taker's) exercise notice allocated to the Seller's (writer's) option.
- The investor may want to take a profit. For example, the buyer of a call option may have paid a premium of \$1.00 per option, and the same option series may now be able to be sold for a premium of \$1.20, because the price of the underlying shares has increased. The buyer may therefore close out his or her position by selling an option in the same series, profiting from the difference of \$0.20 per underlying share.

- The investor may want to limit a loss. For example, the buyer of a call option may have paid a premium of \$1.00 per option, and the same option series may now be able to be sold for only \$0.80, because the price of the underlying shares has decreased or because the time to expiry has reduced. The buyer may therefore close out his or her position by selling an option in the same series, crystallising a loss of the difference of \$0.20 per underlying share.

If you are seeking to "close out" an existing position, it is important that you instruct this when you place an order through our platform.

### 3.14 Exercise by the Buyer (taker) and assignment to the Seller (writer)

The taker of an Option has the right (but not the obligation) to exercise the option contract. For American style options the writer of an Option may be exercised against at any time prior to expiry. For European style options the writer of an Option may be exercised against only at a certain specific time, that is, generally on the expiration date. When the taker exercises an option, the Clearing House will randomly assign that exercise to an open position held by a writer in the relevant option series and at such point the option is assigned to the writer.

### 3.15 Settlement following exercise of Option

When an equity option is exercised by a Buyer, and the exercise is assigned by the Clearing House to an open position of a Seller, a contract for the sale and purchase of the underlying shares at the exercise price will arise between the Seller and the Buyer.

Payment for, and the delivery of underlying shares occurs via the relevant Clearing House. For example, in relation to ASX Options, settlement occurs through ASX Settlement, the settlement facility for ASX transactions and settlement will occur in accordance with the operating rules of ASX Settlement. Your obligations in relation to settlement are set out in IBA's terms and conditions.

Index options are cash settled. When an index option is exercised by a taker, and the exercise is assigned by the Clearing House to an open position of a Seller, the Seller of the option must pay the cash settlement amount to the Clearing House. For example, in relation to ASX Options, that amount will be determined by the difference between the exercise level (set by ASX) and the Opening Index Price Calculation (OPIC) as calculated by ASX on the expiry date. Cash settlement occurs in accordance with the rules of the Clearing House. For more information on settlement of ASX index options see the section entitled "Trading index options" in the ASX Booklet "**Understanding Options Trading**" available at the link provided in section 6.1.

If a currency option is cash settled, and if the currency option is exercised by a taker, and the exercise is assigned by the Clearing House to an open position of a Seller, the Seller of the option must pay the cash settlement amount to the Clearing House. For currency options the amount of settlement will be determined by the difference between the strike price and the reference rate (essentially the difference between the exchange rate when the contract was struck and at expiry). The International Exchange will generally use an exchange benchmark rate published by a Reserve Bank (or equivalent body) of trading currency in question.

You must pay special attention to the specifications of any currency option you intend to trade, especially if you intend to hold such option until expiry (and because, as addressed in this PDS, you may be effectively required to hold the option to expiry if you cannot close-out your position). IBA offers access to currency options on a limited number of exchanges. For example, for currency options traded in the United States, the trading and settlement currency of such options is commonly U.S. Dollars, which means

that you pay premium in and settle transactions in U.S. Dollars. However, a currency option may be traded and settled in another currency, for instance cross-rate currency options traded on a US exchange may settle in currencies other than U.S. Dollars.

If an option contract is traded in currency that IBA does not hold on behalf of its clients, you must ensure you understand the risks associated with the fact that amounts due in respect of the option (for example for settlement) may not be in a currency which IBA is able to hold on your behalf and therefore there will be an additional conversion from the relevant currency in which the option trades back to the base currency nominated for a Client's account. This will involve risks, for instance exchange rate risk, and may also incur costs.

### 3.16 Expiry

Options have a limited life span. For example, for ASX Options, all Options have an expiry month, which generally follow one of three cycles, namely:

- (i) January/April/July/October;
- (ii) February/May/August/November; or
- (iii) March/June/September/December.

The options expire on a specified day in the expiry month, as determined by ASX. For equity options, the option expires on the Thursday preceding the last Friday in the expiry month, as long as both the Thursday and Friday are full business days. Therefore if the last day of the month is a Thursday the option will expire on the Thursday prior. Index Options expire on the third Thursday of the contract month provided that day is a business day. For ASX Options, ASX's Clearing House, ASX Clear Pty Ltd (**ASX Clear**) has the right to change these expiry dates should the need arise. Expiry day information is available on the ASX website at <http://www.asx.com.au/about/expiry-calendar.htm>.

For options traded on International Exchanges, you should refer to the relevant option specification available from the exchange's website.

### 3.17 Clearing House Margin

This section contains a description of the basis upon which a Clearing House calls margin from its Clearing Participants. These margins may or may not correspond with the margin we call from you. For a description of our margin requirements and arrangements, see section 7.

As the Clearing House contracts with Clearing Participants as principals, where a Clearing Participant has an exposure under an Option contract to the Clearing House, the Clearing House will call amounts of money known as "Margin" from the Clearing Participant as cover. Margins are generally a feature of all exchange traded derivative products and are intended to help protect the Clearing House against default of a Clearing Participant or the underlying client. A margin is the amount calculated by the Clearing House as necessary to cover the risk of financial loss on an Option contract due to an adverse market movement.

The writer of an Option 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 Clearing Participant, on behalf of the writer, will not perform its obligations if and when the option is exercised. The taker of an Option will not be required to pay margin in respect of that contract, because they



are not "at risk" – they must pay the premium up front. The premium is the maximum amount the taker of the option can lose in respect of that contract (as distinct from other amounts payable on an Option, for example brokerage on trades).

The total margin called by the Clearing House for Options is generally made up of two components, in each case, determined by the Clearing House:

- **Initial margin** (sometimes also known as risk margin) – this is determined by a calculation of potential change in the price of the option contract assuming a maximum probable inter-day price move in the price of the underlying security or index at the close of business on the day the contract is executed.
- **Variation margin** (sometimes also known as premium margin) – this is determined by reference to the market value of the underlying asset (share, index or currency) at the close of business each day.

Margin amounts are determined daily by the Clearing House after the close of trading each day. In times of extreme volatility (in the relevant market or underlying asset) an intra-day margin call may be made by the Clearing House to the Clearing Participant.

The margining process used by ASX Clear (the Clearing House for transactions on the ASX) is explained in detail in the ASX booklet "Understanding **Margins**" which is available on the ASX website or [here](#).

You should refer to the websites of International Exchanges on which you wish to trade for details of the margin calculation processes on such exchanges.

### 3.18 Premium

If you are the taker (buyer) of an Option, you will be required to pay a premium in connection with the purchase of the option contract.

If you are the writer (seller) of an Option, you will be entitled to receive a premium in the connection with the sale of the Option contract.

As noted above, the only term of an exchange traded option contract which is not set and pre-determined by the exchange is the price of the contract. The price, known as the "Premium", is negotiated between the buyer and seller of the Option through the market.

The premium for an equity option is quoted on a cents per underlying share basis so the dollar value payment is calculated by multiplying the premium amount by the number of underlying shares. As discussed above, for ASX Options this is usually 100 at the time the option series is opened, but may be adjusted by ASX. For example, if you buy a call option with a premium quoted at 25c per share and the contract size is 100, the total premium is \$25.00 (being \$0.25 x 100).

The premium for an index option is calculated by multiplying the premium (specified in terms of the number of points of the index) 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.

The premium for a currency option will be expressed in a currency denomination of the quote currency per unit of the base currency then multiplied by the premium multiplier. For example, if an option contract on the U.S. dollar is purchased at a premium of 0.12

cents Australian per U.S. dollar with a premium multiplier of 100, the total premium would be AUD\$12.

The value of an option will fluctuate during the option's life depending on a range of factors including:

- the exercise price or, the price of the underlying share, the level of the underlying index, or the level of the underlying currency,
- the volatility of the underlying share, underlying index, underlying currency,
- the time remaining to expiry date,
- interest rates, dividends, exchange rates,
- 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 Options Trading**" available at the link provided in section 2.3 above for more information regarding the fundamentals of pricing options. ASX also provides a pricing calculator on the ASX [website](#).

Existing clients of IBA can obtain current option price information through IBA's Trader WorkStation (TWS).

For further detailed information on the premium in respect of an Options contract, refer to "Option pricing fundamentals" on page 9 of the "**Understanding Options**" booklet available following the link provided in section 2 above and also the ASX's "Options Calculator" available [here](#).

You should refer to the contract specifications for any particular Option contract series, which will include how the premium is calculated as provided by the relevant exchange prior to undertaking trading in the instrument. Please refer to IBA's website, [www.interactivebrokers.com.au](http://www.interactivebrokers.com.au), under Products >> Exchange Listings for links to the relevant exchanges.

### 3.19 Adjustments

The ASX or an International Exchange or Clearing House may in accordance with its operating rules make an adjustment to any of the specifications of an option to reflect certain events: in relation to equity options for example, if the issuer of the underlying makes a bonus issue, rights issue, special dividend, capital reduction or other similar event or corporate action, or in relation to a currency option if the Reserve Bank or Treasury (or similar body responsible for the issuance of currency) of the Country of issue of the relevant foreign currency issues more currency than typically the terms of the option will be adjusted.

If an exchange (or relevant body) does make an adjustment to an option (or series of options) it will generally endeavour to do so in a way which puts the writer and taker in substantially the same economic position they would have been in had the adjustment event not occurred, so as to preserve the economic value of open positions of takers and writers at the time of the adjustment. In some cases, an exchange may decide not to make an adjustment for a corporate action and, instead, direct that open positions be

terminated or closed out. When an exchange makes an adjustment to the terms of an option series, the Clearing House will make a corresponding adjustment to the terms of contracts which are already open.

The ASX has issued an **Explanatory Note for Option Adjustments** which can be found [here](#) and provides further information regarding ASX option adjustments.

For Options traded on International Exchanges, you should refer to the relevant option specification available from the exchange's website.

### 3.20 **No Dividends or Entitlements**

The parties to an equity option do not, under the terms of the option, have any entitlement to dividends, franking credits or other entitlements paid or made by the issuer of the underlying shares. Of course, the seller of a call option or the buyer of a put option who holds the underlying shares will have an entitlement to dividends, franking credits and other entitlements, but these are entitlements of the holders of the shares, not through the option contract.

If the buyer (taker) of a call option wants to participate in a prospective dividend or entitlement, the buyer will need to first exercise the option, allowing sufficient time to become the registered holder prior to the Ex Dividend or Ex Entitlement date. The resulting sale and purchase of underlying shares on the exercise of an equity option will settle on the second or third business day (depending on the Exchange settlement period) following the exercise of the option (see the discussion below under the heading "*Settlement following exercise of Option*").

### 3.21 **IBA and Automatic exercise**

Subject to your account having sufficient available funds, we will automatically exercise your taken Option contract if your contract is in the money which will vary with the Rules of the applicable Clearing House. For example with ASX listed options, options will be in the money by, one cent for equity options and one point for index options.

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

### 3.22 **Cooling off arrangements**

There are no cooling-off arrangements for Options described in this PDS. You may request to discard any non-transmitted order or request to cancel a transmitted order. However, you should note that due to nature of exchange based trading, while you may request to cancel your order, such request may not be successful if your order has traded against another order in the time between when you request to cancel it and when that instruction is processed by the relevant exchange. A working order is not cancelled until clearly indicated by IBA, for instance in status field of TWS.

### 3.23 Information on trading strategies

For information and examples regarding trading strategies using Options, refer to the "Pay-off" section on page 24 of "**Understanding Options Trading**" available at the link provided in section 2 above.

IBA also provides some information on trading strategies at our website, [www.interactivebrokers.com.au](http://www.interactivebrokers.com.au) under Education >> Trader's University. Please note that the information provided at this website is for educational purposes only and does not constitute financial product advice.

## 4. SIGNIFICANT BENEFITS OF OPTIONS

There are a number of benefits in trading Options, including the following:

- **Standardisation:** As discussed in sections **above** because Options are standardised and therefore interchangeable, you may through the ASX or International Exchange or Clearing House open and close positions, depending on the liquidity of the market in the relevant contract.
- **Risk Management:** Through the processes of novation and margining, the Clearing House assumes and manages the risk of Options entered into on the Relevant Exchange. This reduces counterparty risk in a way which is not available in over-the-counter (**OTC**) derivatives transactions. IBA has certainty that the other side of the Options contract will be honored, and we (and therefore you) will not be subject to risk that the counterparty to the original Options contract may default in their obligations under the contract.
- **Hedging:** Investors can use Options to hedge (protect) their share portfolio, for example, buying put options over particular shares to hedge against a drop in value.

Investors can hedge (protect) against certain currency movements, for example if the investor is expecting an outflow of currency A, investors may buy a call option on currency X and thus ensure that they will only pay no more than the strike price for X per currency A.

- **Income:** Shareholders can earn income by writing a call option over an underlying share they already hold. As a writer of options, the investor will receive the premium amount upfront, when the option is entered into. The risk is that the writer will need to maintain margin obligations throughout the life of the position and may be exercised against. This exercise will result in the writer being required to deliver the underlying shares to the taker at the exercise price.
- **Time to Decide:** 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 their decision. Likewise the taker of a put option has time to decide whether or not to sell the shares.

- **Profit in Rising or Falling Market:** Investors can profit from both a rising and falling markets depending on the strategy they have employed. Strategies may be complex and strategies will have different levels of risk associated with each strategy.
- **Diversify Portfolios:** Given the lower initial outlay required for options trading, investors may be able to diversify their portfolios and gain a broad market exposure over a range of shares or over an index itself which would otherwise require an investor to purchase each of the shares that constitute the index for a significantly lower initial outlay. An investor may also choose to include exposures to multiple currencies and, depending on the option, without the need to managing delivery of multiple different currencies.
- **Speculation:** You can use Options to speculate on market movements as the flexibility of entering and exiting the market prior to expiry (subject to liquidity) permits an investor to take a view on market movements and trade accordingly. In addition the variety of options available (for example, different strikes and expiry dates) allows option combinations and strategies regardless of the direction of the market. Options allow you to gain exposure to a particular underlying security, index or currency without the need to buy or sell the underlying itself.
- **Range of market positions and strategies:** You can potentially profit both from rising and from falling markets depending on the strategy you have employed. Through the use of Options, strategies can be tailored to suit almost any market view.
- **Leverage:** Options generally involve a high degree of leverage. Options, enable you to outlay a relatively small amount of money (in the form of Initial Margin) to secure an exposure to the underlying security, index or currency.

For example, assume you have a positive view about the prospects of XYZ Ltd. You can either buy 1,000 XYZ Ltd shares at \$10.00 and pay your broker \$10,000 (plus costs) or you could buy a call option contract over 1,000 XYZ Ltd shares and pay an Initial Margin at the time the Option is entered into (which is likely to be a small percentage of the contract value (plus costs)).

The same amount of exposure to the underlying shares has been achieved, but for a much smaller outlay. Given a movement in the price of XYZ shares, the percentage returns (positive or negative) from the Options strategy are likely to be much higher.

Assume, for example, the Options contract price is \$10.10, and the Initial Margin payable on the above Options position is 10%. Each contract covers 100 shares. The following table compares the returns, assuming that the XYZ share price rises to \$11.00 by maturity (transaction costs are ignored).

Note: the example provided is for illustrative purposes only and does not necessarily reflect the outcome of any actual trading in Options in similar circumstances.

	Shares	Options
Opening trade	Share price \$10.00  Buy 1,000 shares @ \$10.00 = \$10,000	Options price \$10.10  Buy 10 Options contracts @ \$10.10  Pay 10% Initial Margin = \$1,100
Maturity	Share price \$11.00  Sell 1,000 shares @ \$11.00 = \$11,000	Options price \$11.00  Sell 10 Options contract @ \$11.00
Profit	\$1.00 x 1,000 = \$1,000	\$0.90/share x 1,000 = \$900
Percentage return	10%	89%

**Important: Leverage can work against you as well as for you. The use of leverage can lead to large losses as well as large gains. See section 5 for further information on risks.**

## 5. SIGNIFICANT RISKS OF OPTIONS

You should be aware that the risk of loss in trading in Options, like all derivatives, can be substantial. It is important that you carefully consider whether trading Options is appropriate for you in light of your knowledge, investment objectives, financial circumstances and needs. Options are not suitable for some retail investors and we recommend that you consult your financial adviser to assist you in understanding the risks of trading Options prior to investing.

You should only trade Options if you understand the nature of the products and have a clear understanding of and tolerance for the losses that such trading may incur. The risks attached to investing in Options will vary in degree depending on the option traded.

Some of the main risks associated with Options include the following:

- **Price Sensitive Announcements:** As a general rule, price movements in the underlying share, index or currency pair can significantly affect the value of Options. The value of the underlying share, currency or index themselves are affected by amongst other things including the information that is announced to the ASX or International Exchange in relation to the share or index (or the constituent shares of the index) including credit ratings and issuer announcements, or that is made available by a relevant body which issues a particular nation's currency or publishes the exchange rates which a particular series of Option's references.

Accordingly, it is advisable that an investor in Options regularly reviews information announced to the relevant exchange in relation to relevant underlying shares, index or currency.

For the ASX price sensitive announcements in relation to shares are available on the website at: [www.asx.com.au/asx/statistics/todayAnns.do](http://www.asx.com.au/asx/statistics/todayAnns.do).

- **High Leverage:** The high level of leverage that is obtainable when trading Options (due to the low level of initial capital outlay) can work against an investor as well as for the investor. Depending on the market movement, the use of leverage may lead to large losses as well as large gains, as leverage effectively magnifies exposures and losses. This is especially relevant if you are the writer or Seller of any Option which requires that you may be obliged to deliver cash or securities if the option is exercised by the Taker (see further below).

Returning to the example of an Options contract over XYZ shares used previously, consider the result if the share price, instead of rising to \$11.00, fell to \$8.00 at maturity. The following table shows the results (transaction costs are ignored).

	Shares	Options
<b>Opening trade</b>	Share price \$10.00  Buy 1,000 shares @ \$10.00 = \$10,000	Options price \$10.10  Buy 10 Options contract @ \$10.10  Pay 10% Initial Margin = \$1,100
<b>Maturity</b>	Share price \$8.00  Sell 1,000 shares @ \$8.00 = \$8,000	Options price \$8.00  Sell 10 Options contracts @ \$8.00
<b>Loss</b>	\$2.00 x 1,000 = \$2,000	\$2.10 x 1,000 = \$2,100
<b>Percentage return</b>	-20%	-208%

**Leverage has served to multiply the loss suffered in percentage terms.**

- **Liquidity:** Under certain market conditions, it could become difficult or impossible for you to close out a position, and the relationship between the prices of the Exchange Traded Derivative and the underlying market may be distorted or affected. Examples of when this may happen are:
  - if there is a significant change in the price of the underlying commodity, instrument or security over a short period of time;
  - if there are insufficient willing buyers and sellers in either the Option or the underlying market;
  - if the Option market is suspended or disrupted for any reason.

Similarly, events such as these in relation to the market for the underlying asset may make it difficult for you to hedge or maintain your exposure.

- **Limited Life Span:** 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 the investor's investment objectives and investment horizons.
- **Underlying Market movements:** Because the value of Options are dependent partly on the value of the underlying assets, any changes in the underlying market may impact the underlying asset value, and may impact your position in Options. Changes in the underlying market may make it difficult to maintain the hedge or maintain your exposure under an open Option contract. There is also a risk that an Option you have purchase may fall in price or become worthless at or before expiry.
- **Loss of Premium for Buyers:** The maximum loss in taking (buying) an Option is the amount of premium paid to acquire the option which is in addition to the transaction costs you pay to IBA as your broker. If the option expires worthless, the taker will lose the total value paid for the option in addition to the transaction costs (e.g. brokerage or commission) you have paid.
- **Potentially Unlimited Loss for Sellers:** Whilst Sellers (writers) of Option's earn premium income, they may also incur unlimited losses if the market moves against the option position and they do not hold the underlying security. 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 and assigned to the writer of the option, the writer will be 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 is exercised and assigned to the writer, the writer is forced to buy the underlying shares from the taker at a price above the current market price. In either case, as a seller of an option, you may be required to deliver or take delivery of an asset at a value which is disadvantageous in view of its then price. You should not risk more funds than you can afford to lose. A good general rule is never to speculate with money which, if lost, would alter your standard of living.

In the case of sellers of index and currency options, you will be effectively required to pay the difference between the strike price and settlement value multiplied by the contract multiplier in cash if the option is exercised and assigned to the seller. This may mean you are not refunded any money you paid as initial or variation margin, and may mean you are required to pay additional amounts (see below).

- **Loss of Stock for Writers of Covered Call Options:** Writers of covered calls (where the writer holds shares) will if the contract is exercised, be forced to deliver the underlying stock at the exercise price which will be below the current market price.
- **Close Out Difficulties:** Under certain conditions, it may become difficult or impossible to close out an open Option position and the relationship between the price of Options contracts and the underlying asset may become distorted. Examples of when this may happen are:
  - if there is a significant change in the price of the underlying share over a short period of time;
  - if there is an absence or reduction in the number of willing buyers and sellers in either the Options market or the underlying market;
  - if the market is suspended or disrupted for any reason.



- **Placing orders in a moving market:** Placing of contingent orders <sup>1</sup>(such as a 'stop-loss' order) may not always limit your losses to the amounts that you may want. Market conditions may make it impossible to execute such orders. For example, if the price of the underlying asset moves suddenly, your stop loss order may not be filled, or may be filled at a different price to that specified by you, and you may suffer losses as a result.
- **Exchange and Clearing House powers:** ASX, International Exchanges and Clearing Houses commonly have broad discretionary powers in relation to the market and the operation of the clearing facility. They have power to suspend the market operation, or lift market suspension in options while the underlying securities are in a 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. Whilst such powers ostensibly exist to ensure fair and orderly markets are maintained as far as practicable, the consequence of an exchange exercising such powers may not be economically beneficial to you individually. Actions taken by an exchange may affect an investor's option positions.
- **Trading Disputes and Trade Cancellations:** Trades executed may be subject to dispute. When a trade is subject to a dispute the exchange or Clearing House commonly 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. In some situations, the exchange or Clearing House may also exercise powers to cancel or vary, or direct the cancellation or variation, of transactions.
- **Trade Amendments and Cancellations:** Under terms of IBA's agreement with you, IBA has the ability to amend or cancel a trade. This could cause you to suffer loss or increase your loss. A trade executed on your behalf can also be amended or cancelled even where the trade has been confirmed to the client.
- **System Outages:** Trades effected on an exchange are traded on an electronic trading platform and cleared through the Clearing House, which also relies on electronic systems. 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 commonly imposed by the ASX, International Exchanges and the Clearing House. Any market disruption may mean a client is unable to deal in Options when desired, a client may suffer a loss as a result. Common examples of disruption include a fire, technology interruption or other exchange emergency. The exchange could, for example, declare an undesirable situation has developed in a particular Option contract and suspend trading. Exchanges or participants may also be able to cancel transactions under their operating rules.
- **Capital Loss:** By trading in Options, you are exposed to the risk of losing capital. Speculators should not risk more capital than they can afford to lose. A good general rule is never to speculate with money which, if lost, would alter your standard of living.
- **Default:** If you fail to meet your obligations to us under your agreement with IBA (T&Cs), including but not limited to failure to meet IBA's margin requirements at any

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<sup>1</sup> Contingent orders is an order that becomes a market order (and hence executes) when the derivative market reaches the designated price.

time or any other action or inaction which we have agreed constitutes a default under the T&Cs, we may, in addition to any other rights which we may have against you, and without giving prior notice to you, take any action (which may include entering into risk reducing positions by closing out some or all of your open positions and or exercise open positions), or refrain from taking action, which we consider reasonable in the circumstances in connection with the open positions in your Account with us and you must account to us as if those actions were taken on your instructions and you are, without limitation, liable for any deficiency and are entitled to any surplus which may result.

- **Automatic Liquidation on Margin Shortfall:** As discussed in section 5.11, IBA will generally close positions automatically upon a margin deficit arising. Whilst IBA will notify you if a deficit arises, IBA is not obliged to give you any opportunity to deposit further funds to rectify such deficit and will liquidate positions to bring your Account back into margin compliance.
- **Dealing on Markets Outside Australia:** The execution and clearing of Options on International Exchanges outside of Australia are subject to the rules of the International Exchange and Clearing Houses, which may differ from the rules of ASX and ASX Clear. Similarly, execution of your orders in respect of Options on an International Exchange is subject to the laws of the relevant jurisdictions, which may differ from Australian laws. Such trading actions are subject to the supervision and regulation by overseas regulators, whose functions and powers may differ from those of Australian regulators such as the Australian Securities and Investments Commission.
- **Exchange Rate Risk:** If you trade in Options on International Exchanges, the positions are likely to be denominated in a currency other than Australian dollars. The holding of positions and trading of products denominated in a foreign currency exposes you to the potential risk (and potential benefit) of exchange rate fluctuations.

If an option contract is traded in a currency that IBA does not hold on behalf of its clients, you must ensure that you understand the risks associated with the fact that amounts due in respect of the option (for example for settlement) may not be in a currency which IBA is able to hold on your behalf and therefore there will be an additional conversion from the relevant currency in which the option trades back to the base currency nominated for a Client's account. This will involve risks and may also involve costs.

Where IBA needs to perform a spot foreign conversion to settle a dealing entered into on your behalf, the inherent exchange rate risk inherent (loss or gain) will be crystallized. These losses (or gains) may be in addition to any losses (or gains) on the Product itself.

You must pay special attention to the specifications of any currency option you intend to trade, especially if you intend to hold such option until expiry (and because, as addressed in this PDS, you may be effectively required to hold the option to expiry if you cannot close-out your position). IBA offers access to currency options on a limited number of exchanges. For example, for currency options traded in the United States, the trading and settlement currency of such options is commonly U.S. Dollars, which means that you pay premium in and settle transactions in U.S. Dollars. However, a currency option may be traded and settled in another currency, for instance cross-rate currency options traded on a US exchange may settle in currencies other than U.S. Dollars.

- **Foreign Currency Money Rules:** Where you instruct IBA to arrange a dealing in Options on International Exchanges you may be required to pay amounts in a currency other than Australian dollars (for example, premium and margin payments) and/or you may receive amounts in a foreign currency (please see exchange rate risk above).

Foreign currency amounts held by a broker appointed by IBA or a Clearing House for an International Exchange will be held in accordance with the laws and rules of the relevant jurisdiction and will not have the protection provided by the Corporations Act 2001 (Cth) and the Market Integrity Rules which are applicable in Australia. In particular, Clients' monies may not have the same protection as money deposited in Australia in a broker's client money account.

- **Time Zone Difference for Australian Clients dealing in foreign markets:** You should be aware that outside of the Asia Pacific Region there are significant time zone differences between Australia and the major global financial markets centres in Europe and the United States. If you are dealing on these markets, your orders will likely be executed outside of normal Australian business hours and/or during the Australian night time. In addition major market events or events which impact individual stocks or currencies may also take place well outside of normal business hours or normal market hours in Australia. This in turn may have impacts on the values of Options in your account.
- **Sanctions Legal Risk:** Australia is a member of the United Nations and observes and implements United Nations Security Council sanctions. IBA must comply with restrictions imposed by sanctions and may be prohibited from dealing with certain persons or entities. If it appears that you are or may be acting on behalf of a prescribed person or entity, IBA may be required to suspend, cancel or refuse services to you, freeze your assets held by us or close or terminate your agreement with us. If we are required to take action it may result in significant costs to you
- **Market emergencies:** You may incur losses that are caused by matters outside the broker's control. For example, a regulatory authority exercising its powers during a market emergency may result in losses. A regulatory authority can, in extreme situations, suspend trading or alter the price at which a position is settled. This could also result in a loss.
- **Market disruption:** A market disruption may mean that you are unable to deal in an Exchange Traded Derivative when desired, and you may suffer a loss as a result. Common examples of disruption include the "crash" of the exchange electronic trading system, fire or other exchange or Clearing House emergency.
- **Australian regulators may not have any jurisdiction:** Neither the Australian Securities and Investments Commission nor Australian exchanges regulate activities of foreign International Exchanges, nor do they have the power to compel enforcement of the operating rules of a foreign International Exchange or any applicable foreign laws. Generally, the foreign transaction will be governed by applicable foreign law. This is true even if the International Exchange is formally linked with an exchange in Australia.

Please be aware that this PDS does not cover every aspect of risk associated with Options, for instance, you should consider reviewing the resources made available by the ASX [website](#) under "Education" and other similar resources provided by the operator of the International Exchanges upon which you are considering trading. For a further explanation you should seek appropriate independent advice from a qualified professional.

## 6. EDUCATIONAL MATERIAL

### 6.1 For ASX Options

The ASX has prepared a number of educational booklets and factsheets relating to Options. Before trading you should understand the concepts and information set out in the following documents:

<p><b>“Options – A simple Guide”</b></p>	<p>This factsheet provides a simple high-level overview of the features of options:</p> <p><a href="http://www.asx.com.au/documents/resources/options_simple_guide.pdf">http://www.asx.com.au/documents/resources/options_simple_guide.pdf</a></p>
<p><b>“Understanding Options Trading”</b></p>	<p>This booklet discusses the features and contract specifications of Options, risks and advantages in trading options and gives examples of how Options work and basic option trading strategies. We provided an electronic copy to you during your application to IBA. You may access a copy online using the following link:</p> <p><a href="http://www.asx.com.au/documents/resources/UnderstandingOptions.pdf">http://www.asx.com.au/documents/resources/UnderstandingOptions.pdf</a></p> <p>If you would like a hard copy of the booklet, please contact us and we will arrange to forward to you at no charge.</p>
<p><b>“Option Strategies”</b></p>	<p>This booklet describes in more detail how Options may be used in various trading strategies. You can view this booklet online by using the following link:</p> <p><a href="http://www.asx.com.au/documents/resources/UnderstandingStrategies.pdf">http://www.asx.com.au/documents/resources/UnderstandingStrategies.pdf</a></p>
<p><b>“Margins”</b></p>	<p>This booklet explains what margins are, how they are calculated by the Clearing House and how a Clearing Participant may meet its margin obligations to the Clearing House. You can view this booklet online by using the following link:</p> <p><a href="http://www.asx.com.au/documents/resources/UnderstandingMargins.pdf">http://www.asx.com.au/documents/resources/UnderstandingMargins.pdf</a></p>
<p><b>“Clever Products for Clever Investors”</b></p>	<p>This booklet explains with diagrams various trading strategies:</p> <p><a href="http://www.asx.com.au/documents/products/options_strategies_poster.pdf">http://www.asx.com.au/documents/products/options_strategies_poster.pdf</a></p>
<p><b>“Introduction to Index Futures and Options”</b></p>	<p>This booklet explains what index options are and gives examples of different trading strategies for Index options;</p>

	<a href="http://www.asx.com.au/documents/products/intro_to_index_futures_and_options.pdf">http://www.asx.com.au/documents/products/intro_to_index_futures_and_options.pdf</a>
<b>“ASX Index Options”</b>	This factsheet provides further information on the risks and advantages of trading index options:  <a href="http://www.asx.com.au/documents/resources/index_options.pdf">http://www.asx.com.au/documents/resources/index_options.pdf</a>
<b>“Taxation Treatment of Options”</b>	This paper provides an overview of the income tax consequences of Options.  <a href="http://www.asx.com.au/documents/products/taxation_of_exchange_traded_options_may_2011.pdf">http://www.asx.com.au/documents/products/taxation_of_exchange_traded_options_may_2011.pdf</a>
<b>“Explanatory note for option adjustments”</b>	This is an explanatory note on adjustments that the ASX may make to option contracts.  <a href="http://www.asx.com.au/documents/resources/explanatory_note_option_adjustments.pdf">http://www.asx.com.au/documents/resources/explanatory_note_option_adjustments.pdf</a>

Further information is available from the [ASX](#). Please note that IBA does not warrant the information provided by the ASX (listed above or on its website). If you cannot access the ASX booklets via the ASX website, you should contact the ASX.

## 6.2 Online tutorials provided by IBA

In addition IBA has prepared 3 tutorials on Options which can be viewed at the following website [www.interactivebrokers.com.au](http://www.interactivebrokers.com.au) under Education >> IB Short Videos, Courses & Tours:

- Options 101 – Pricing
- Options 102 – The Greeks
- Options 103 - Strategies

Please note that the information provided at this website is for educational purposes and consist of factual and technical information on options generally only and does not constitute financial product advice. If you have any questions on any technical aspect of the online tutorials you should consult us. You should consult your financial adviser for any other questions, before making any investment decision.

## 7. IBA'S MARGIN REQUIREMENTS

We have discussed above the margin requirements which are imposed by Clearing Houses on Clearing Participants. Where IBA is the Clearing Participant, it must meet these requirements directly. Where IBA is not the Clearing Participant, the Clearing Participant imposes margin requirements on IBA (or position holder on IBA's behalf). In either case, IBA, will in turn, impose its own margin requirements on you, as its client, under its agreement with you which may reflect its clearing participants margin requirements and or exceed clearing house margin requirements. This section provides an overview of how IBA calculates and applies its account margin requirements on an account you hold with IBA.

**(i) Single universal account**

When you open an Account with IBA, you open a single account through which you may elect to trade not only Options, but other products such as shares, futures and foreign exchange contracts (subject to IBA's eligibility criteria). When we calculate your margin requirement, we have regard to the assets and liabilities in your Account as a whole.

**(ii) Risk based portfolio analysis**

We determine the margin requirement for your Account by risk based portfolio analysis models, also having regard to the margin called by ASX, International Exchanges and Clearing Houses. A summary with examples on how IBA calculates Option margins is available via the following link to IBA's website: [www.interactivebrokers.com.au](http://www.interactivebrokers.com.au) under Products >> Margin.

**(iii) Real-time margining and real-time monitoring**

The value of assets and positions held in your Account is marked to market by IBA's real-time credit management system. IBA uses a real-time risk management system to allow you to see your trading risk at any moment of the day. Our real-time margin system calculates margin requirements throughout the day for new trades and trades already on the books and enforces initial margin requirements at the end of the day, with real-time liquidation of positions instead of delayed margin calls. Your margin requirement and current equity is monitored by IBA and displayed online in real time via the various trading interfaces (for example TWS). For more information about real-time margin monitoring, please visit our webpage: [www.interactivebrokers.com.au](http://www.interactivebrokers.com.au) under Products >> Margin >> Real-time Monitoring

***Important: It is your responsibility to actively monitor and manage your open positions and ensuring that you meet your margin obligations. The proprietary platform that IBA provides to you provides visual indicators on your portfolio. It is also your responsibility to ensure that you are aware of any changes in margin obligations and we recommend that you monitor your positions continuously. All margin requirements must be met immediately. This means that sufficient cleared funds must be on deposit in your account to enable you to meet margin requirements immediately as and when they fall due.***

**(iv) New positions must be covered in advance**

IBA's margining methodology means that we do not permit you to execute a transaction if to do so would cause your account to drop below the require minimum margins we impose on the account (margin deficit). IBA determines this by simulating the consequence of any transaction you propose to undertake. For example, if your margin requirement would increase as a result of an initial margin obligation under an Option, and there were insufficient assets in your account to cover the initial margin obligation, IBA's system would reject the order to execute the transaction concerned.

**(v) Collateral**

Depending on the type of Account you hold with IBA, margin obligations may be met by paying cash or by providing certain types of eligible collateral (e.g. securities). Subject to any requirements specified in laws and regulations, IBA may calculate its own value for any financial products used as collateral based on bid price, offer price, midpoint or using some other method as it determines in its sole discretion.

**(vi) Consequences of a margin deficit**

If your account does go into margin deficit, (that is, if there are insufficient assets in your Account to cover the margin requirements), then IBA will liquidate all, or part of, the assets held in your Account, or otherwise close your open positions to eliminate the deficiency.

**Important: IBA will notify you when a margin deficiency arises, but is not obliged to give you an opportunity to provide further funds. This notification is given electronically via IB's trader workstation (TWS). IBA will instead generally liquidate positions in your account in order to satisfy margin requirements.**

Any losses resulting from IBA closing out your positions will be debited to your account and you may be required to provide additional funds to IBA to cover any shortfall.

You should carefully review the T&C's to understand your rights and obligations and IBA's rights and obligations.

## 8. CLIENT MONEY

The following section is intended to outline important information regarding client money, you should review the terms of your agreement with us for further detail regarding handling of client money.

IBA will handle the client money it receives in accordance with the rules set out in Part 7.8 of the Corporations Act 2001 (Cth) (Client Money Rules) and to the extent applicable the ASIC Market Integrity Rules Securities Markets 2017, and the rules of Clearing Houses of which it is a member. Where required, IBA will pay such client money into a trust account. Client money received from you (or on your behalf) will be combined and deposited with the client money received from IBA's other clients.

In accordance with Corporation Regulation 7.8.02A, IBA will specifically not use derivative retail client money for the purpose of meeting margin obligations applicable to transactions that IBA enters into to hedge the risk associated with dealing in derivatives, including the Products described in this PDS. Money may be paid to Clearing Houses directly by IBA (such as ASX Clear (Futures)) or to participants or foreign exchanges to meet margin and settlement obligations. Money paid out to and held by participants of International Exchanges or the Clearing House of the relevant International Exchange will not be held IBA according to the Australian Client Money Rules, rather it will be held in accordance with the rules of the relevant jurisdiction. In those circumstances, funds may not have the same protection as funds deposited in Australia in a trust account.

IBA is entitled to all interest earned on any client money held in a trust account.

**Important:** Clients who trade, or wish to trade Products on International Exchanges may be required to meet the obligations for a transaction in a foreign currency and may be entitled to delivery of foreign currency upon settlement. Where IBA does not support the holding of a particular foreign currency, it will arrange for a spot foreign exchange transaction to be executed on your behalf to meet the obligations of the dealing or convert the proceeds resulting from settlement (if any).

## **9. FEES, CHARGES AND MINIMUMS**

The following is a summary description of the fees and charges associated with trading in Options.

The fees and charges payable will differ depending on the product, exchange and Clearing House concerned. Due the breadth of exchanges available on which you may trade the Products described in this PDS, we ask you to refer to IBA's website, [www.interactivebrokers.com.au](http://www.interactivebrokers.com.au) for information on what fees and charges are payable, see under Pricing >> Commissions which sets out all fees payable for trading Options.

Relevant fees and charges associated with a transaction will be disclosed on the confirmation for the transaction.

### **9.1 Commissions**

We charge commission for executing trades in Options (both opening and closing positions). Please refer to our website for details.

### **9.2 Mark ups and intermediary billings**

Financial advisers and brokers may charge their clients for services rendered either through automatic billing, electronic invoice or direct billing. If you are a client of a financial adviser or broker, they determine the mark-up on IBA's standard fees and commission and this mark-up may be modified from time to time. You will be provided notice with details of any mark ups on IBA's standard fees and commissions charged by your financial adviser or broker at account application and when they are changed by your financial adviser or broker. The available billing methods including caps and limitations are described at the IBA website at [www.interactivebrokers.com.au](http://www.interactivebrokers.com.au) under Pricing.

### **9.3 Interest**

If you have a debit balance on your Account after all fees and costs have been deducted (in other words, you owe money to meet the margin requirement or other amounts) you must pay interest on the debit balance. Interest is calculated daily based on your positions, margin requirement and balances on your daily statement for that date. Interest is usually posted once a month on your Account. This generally occurs within five business days following the end of the month. See [www.interactivebrokers.com.au](http://www.interactivebrokers.com.au) under Pricing >> Interest and Financing.

### **9.4 Administrative fees and charges**

IBA charges certain administrative fees for matters such as order cancellation and modifications, trade busts (cancellations) and adjustments, prime broker take-ups, deposits and withdrawals, exercise and assignments, American Depository Receipts (ADRs) and fees for bounced cheques, stop payments. The list of administrative fees and charges is available on the IBA website at See [www.interactivebrokers.com.au](http://www.interactivebrokers.com.au) under Pricing >> Other Fees.



## 9.5 Taxes

Transaction taxes, such as value added taxes may apply in some jurisdictions. The taxation implications of trading in Options will depend on your particular circumstances and it is recommended that you obtain your own independent taxation advice. See section 11 for a more detailed discussion of significant taxation implications.

## 9.6 Market data, fundamentals and news

If you access market data, fundamentals or news through IBA, there may be a cost to you to subscribe for this information. Please refer to the IBA website [www.interactivebrokers.com.au](http://www.interactivebrokers.com.au) under Pricing >> Research, News and Market Data for further information on the costs of accessing such data through IBA.

## 9.7 Clearing House Fees

ASX Clear and International Clearing Houses usually charge a transaction fee per option contract (opening or closing trades) and exercise and assignment fees. Fees for opening or closing a position are typically included in your commission payable to IB. Exercise and assignment fees are not typically included in commissions and may be separately payable by you. Where such fees are payable, they will be disclosed in your transaction confirmation. These clearing house fees may be tax deductible and you should consult with your tax adviser or accountant.

You should refer to IBA's website for details.

## 9.8 Monthly activity minimums

IBA caters to active professional traders and investors and as such accounts are required to meet minimum levels of activity. Those accounts that do not meet the minimum levels are assessed a monthly activity fee. Whether this fee is assessed is determined by reference to commissions only, that is, for instance market data fees and administrative fees are not included in determining if an account has met the minimum activity.

Required balance, activity and commission minimums for retail and introducing broker accounts and for clients using a dedicated line FIX connection are as set out on the IBA website at [www.interactivebrokers.com.au](http://www.interactivebrokers.com.au).

## 9.9 Required Minimums

There are minimums required to open an account with IBA. These are set out on our [www.interactivebrokers.com.au](http://www.interactivebrokers.com.au) under Pricing >> Required Minimums.

## 10. COMPENSATION SCHEMES

In relation to ASX, the National Guarantee Fund (**NGF**) provides investors with various protections. For example, if an equity option is exercised, the NGF guarantees completion of the resulting trades in certain circumstances. Also, if property is entrusted to a member of ASX (such as our designated Clearing Participant), and it later becomes insolvent, you may, through us, have a claim on the NGF. IBA is a participant of ASX and therefore does have NGF coverage. 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>.

You should be aware that as IBA is not a member of any International Exchanges and therefore you may not have access to any compensation scheme for such exchanges.

## 11. DISPUTE RESOLUTION

### 11.1 IBA's internal complaints resolution process

IBA is committed to providing a high quality product and service. If you have a query about the service or products we offer, our level of service or the quality of product we provide has failed to meet your expectations, we encourage you to tell us.

IBA's complaint process is designed to ensure your complaint is handled promptly, appropriately and fairly, and dealt with in the strictest confidence.

We request that you submit any queries or complaints online to ensure such queries and complaints are dealt with in the most efficient manner. Please submit your query via Client Portal for the most expedient and efficient handling. You do this by logging into "Client Portal" selecting "Inquiry Ticket" >> "New Ticket" and then selecting the following:

- Category: Other Regulatory
- Sub-category: Submit a Complaint

Alternatively, you may make your query or complaint as follows:

By Telephone:	+61 (2) 8093 7300
By Mail:	The Complaints Officer Interactive Brokers Australia Pty Ltd PO Box R229 Royal Exchange NSW 1225 Australia

Under the rules applicable for handling complaints, IBA has 30 days in which to respond to your complaint or query, although we may need to extend this timeframe in complex matters. IBA will attempt however to resolve your complaint and notify you of any proposed resolution as quickly as possible.

### 11.2 The Australian Financial Complaints Authority

If you are not satisfied with how your complaint is responded to by IBA or 30 days have elapsed, you may direct your concerns in writing to the Australian Financial Complaints Authority ("AFCA") which is an independent dispute resolution scheme of which IBA is a member. Before you submit any concerns to AFCA, you must have given your complaint to IBA and given us time to resolve the matter. The dispute resolution scheme offered by AFCA is provided to you free of charge. AFCA details are:

Australian Financial Complaints Authority

GPO Box 3, Melbourne, Victoria 3001

Telephone 1800 931 678

Internet: [www.afca.org.au](http://www.afca.org.au)

Email: [info@afca.org.au](mailto:info@afca.org.au)

## **12. TAXATION**

Interactive Brokers does not provide tax advice. It is important to note that a client's tax position when trading Option's will depend on your individual circumstances and the trading strategies that you adopt.

We strongly recommend that you seek independent professional tax advice on the tax implications relevant to your circumstances before trading Option's.

### **12.1 Goods and Services Tax (GST)**

The purchase and disposal by investors of Options over financial products and indices is not subject to GST. GST is payable on brokerage and commissions charged by IBA.

### **12.2 US Foreign Account Tax Compliance Act ("FATCA")**

Under the Inter-Government Agreement between the Australian and US Government, IBA has certain obligations to report transaction information to the Australian Tax Office (ATO) on US citizens and various US and non-US entities. We may also request you to provide certain FATCA information if you come within the requirements of the legislation.

We do not provide taxation advice, or advice about FATCA. You should consult your personal tax adviser if you believe that you are impacted by FATCA obligations.