



## **Exchange Traded Options Product Disclosure Statement**

MARCH 2013

<http://www.bby.com.au>

This product disclosure statement covers exchange traded options issued by BBY Limited and traded on ASX.

## SECTION 1 – IMPORTANT INFORMATION

### 1.1 PURPOSE OF THIS PDS

This Product Disclosure Statement (**PDS**) was prepared on 18 April 2012. This PDS was prepared by BBY Limited ABN 80 006 707 777; AFSL 238095 (**BBY**) in respect of exchange traded options (**ETOs**). This PDS will have effect from the day that you become a client of BBY and begin to trade the ETOs described in this PDS.

This PDS describes the key features of ETOs, their benefits, risks, the costs and fees of trading in transactions and other related information. You should read all of this PDS.

This PDS is designed to help you decide whether the transactions described in this PDS are appropriate for you. You may also use this PDS to compare this financial product with similar financial products offered by other issuers.

### 1.2 PRODUCTS COVERED BY THIS PDS

This PDS covers ETOs traded on ASX and settled and cleared by ASX Clear Pty Limited (**Clearing House**). It deals with exchange traded equity options and index options (referred to in the market as standard ETOs) and low exercise price options (referred to in the market as LEPOs).

Exchange traded equity options are options over quoted shares (or other securities) of a range of different companies listed by ASX for trading on its Exchange.

Exchange traded index options are options over an index such as the S&P™/ASX 200™ index or the S&P™/ASX 200™ Property Trust Index.

### 1.3 BBY DOES NOT GIVE PERSONAL ADVICE

BBY will not give you personal financial advice. This PDS does not constitute a recommendation or opinion that the transactions are appropriate for you.

Potential investors should be experienced in ETOs and understand and accept the risks of investing in the financial products covered by this PDS. The information in this PDS is general only and does not take into account your personal objectives, financial situation and needs. This PDS does not constitute advice to you on whether the transactions are appropriate for you. This PDS describes the exchange traded options contracts which are issued to you; you should read all of this PDS before making a decision to deal in financial products covered by this PDS. We recommend that you contact us if you have any questions arising from this PDS prior to entering into any exchange traded options contracts with us. BBY recommends that you consult your advisor or obtain independent advice before trading.

### 1.4 CURRENCY OF PDS

The information in this PDS is up to date at the time it was prepared but is subject to change from time to time. If the new information is information which materially affects you, we will either issue a new PDS or a supplementary PDS containing the new information. If the new information is not materially adverse to you, we will not issue a new PDS or a supplementary PDS to you, but you will be able to find the updated information on our website at [www.bby.com.au](http://www.bby.com.au) or by calling us using the contact details given in section 1.6 – Contact Details. If you ask us, we will send you a paper copy of the information.

### 1.5 THIS PDS

BBY is required to give you this PDS because it is considered to be the issuer of the ETOs.

Options can be highly leveraged and speculative with a high degree of risk. Potential investors should be experienced in options and understand and accept the risks of investing in them.

These are sophisticated financial products so you should read this PDS in full before making any decision to invest in these financial products.

ASX transactions entered into on your behalf are cleared and settled by BBY.

A Glossary is provided at the end of this PDS (see section 7 - Glossary).

### 1.6 CONTACT DETAILS

BBY can be contacted at:

**Level 17  
60 Margaret St  
SYDNEY NSW 2000**

**Telephone: 1800 551 212**

**or via our website at [www.bby.com.au](http://www.bby.com.au).**

## SECTION 2 – FEATURES

### Key Information

### 2.1 KEY FEATURES OF OPTIONS

- You can make a profit or loss from changes in the market price (or level) of an ETO's Underlying Security (which could be a market index or an exchange-traded security), without actually owning that Underlying Security.
- ETOs are used to manage cash flow, price and market risk.
- They are standardised.

### 2.2 KEY BENEFITS OF OPTIONS

- You can earn extra income over and above dividends by writing call options against your shares. By writing an option you receive the option premium up front. While you get to keep the option premium, there is a possibility that you could be exercised against the option and have to deliver your shares to the taker at the exercise price.
- Options can allow you to build a diversified portfolio for a lower initial outlay than purchasing the Underlying Security directly.
- Trading in exchange traded options may assist with cash flow management.
- Exchange traded options have the benefit of market liquidity and the regulations governing the market.
- People who trade in options may do so for a variety of reasons. Some trade for speculation, that is, with a view to profiting from fluctuations in the price or value of the Underlying Security.

## BBY EXCHANGE TRADED OPTIONS PRODUCT DISCLOSURE STATEMENT

- (this should be joined to prior point) Others trade options to hedge their exposures to the Underlying Security. For example, options can be used as a risk management tool to enable those with existing holdings of Underlying Securities to lock in an effective sale price for the shares concerned by taking a “long” put position. Then, if the price of the Underlying Security falls, the long put positions will wholly or partly offset the losses incurred on the physical holdings.

### 2.3 KEY RISKS OF OPTIONS

The use of options involves a high degree of leverage. These contracts enable a user to outlay a relatively small amount to secure an exposure to the Underlying Security.

The use of leverage can magnify your losses. As an option buyer you could sustain a total loss of your option premium as a result of fluctuations in the market.

You are exposed to the fluctuations in the price (or level) of the Underlying Security.

Margin calls – when you hold written (sold) options you are exposed to Margin calls for additional payments to BBY:

- You have an obligation to meet a Margin call when made on you. This obligation is in addition to your obligation to maintain any minimum required Margin cover.
- Margin calls occur when BBY tries to contact you to ask for further Margin cover (that is, in addition to any minimum required Margin cover). There is no limit to when or how often you will be called, or the amount of any Margin calls.
- The timing and amount of each Margin call will depend on, among other things, movements in the market price (or level) of the Underlying Security which you choose and the things that affect the market price (or level) of the Underlying Security, such as interest rates, prices of shares or commodities or index levels.
- You have an obligation to meet the Margin call even if BBY cannot successfully contact you. If you do not answer the telephone on the number you give us, or you do not read the emailed Margin call which was sent to the email address you gave us, nevertheless you remain liable to meet the Margin call. That is why you need to be contactable 24 hours a day, 7 days a week.
- You have a risk of your options and collateral being Closed Out if you do not meet the requirement to meet a Margin call. We can stipulate the time for meeting the Margin call but if we do not, it will be 24 hours. Please be aware that BBY can stipulate a shorter time and we can make more than one Margin call even before you have to meet an earlier Margin call. See section 3.4 – Margining of transactions.
- Please note that if BBY notifies you of a Margin call payable to it, your obligation is not satisfied until your payment is credited. Payments or attempts to pay that have not yet been credited will not satisfy your obligation to meet a Margin call.

Margin cover - When you hold written options, you are obliged to maintain at all times any minimum Margin cover payable to BBY for all of your option positions:

- It is your obligation to maintain any minimum Margin cover at all times for so long as you have positions Open.
- We may notify you of your obligations by email, telephone call or otherwise. Your obligation (to maintain minimum Margin cover) remains at all times, whether or not we contact you.
- The timing and amount of changes in any minimum required Margin cover cannot be predicted in advance. The minimum required amount will depend on movements in the market price of the Underlying Security and the things that affect the market price (or level) of the Underlying Security that you choose, such as interest rates, prices of shares or commodities or index levels. These can fluctuate significantly and rapidly, so you need to manage your account prudently to ensure you have paid sufficient Margin cover to meet those fluctuations, especially if you are not regularly monitoring your account.
- You have a risk of your options and collateral being Closed Out if you do not have in your account with BBY sufficient Margin credited to it, regardless of whether you have checked your account's requirement for minimum Margin cover.
- If you pay more than required for the minimum Margin cover (e.g., in order to accommodate fluctuations or to be able to trade further ETOs when the opportunities arise), you are exposed in respect of all of the amounts you pay not just any minimum Margin cover.
- Please note that if BBY notifies you of a minimum Margin cover requirement payable to it your obligation is not satisfied until BBY credits your payment. Payment or attempts to pay that have not yet been credited by BBY will not satisfy your obligation to maintain the minimum Margin cover.

Credit risk for your moneys in a statutory trust account – BBY will tell you your Margin cover requirements and your Margin calls. You must pay these amounts to BBY.

- Your payments to BBY will be first deposited into a statutory trust account maintained by BBY before being withdrawn to meet your obligations to BBY or to pay BBY for your fees or charges owed to it.
- For as long as your moneys are in a statutory trust account, you are exposed to the risk that at the time you ask for surplus Margin cover to be paid to you or you ask for your positions to be closed and all of the surplus paid to you (e.g., after you Close Out all of your transactions), the moneys are not paid in full to you. See the section entitled “Statutory Trust Account” in section 3.2.

**For so long as any of your moneys remain in the statutory trust account, you will have access to any moneys in that trust account belonging to you.** Your moneys held in the statutory trust account are at risk of being used for permitted purposes other than strictly only for your own Account because the Corporations Act allows that. See section 3.2 - Statutory Trust Account.

Please see section 4 – Significant Risks.

## 2.4 WHAT ARE STANDARD ETOs?

Presently the Clearing House makes available two categories of standard ETOs:

- exchange traded equity ETOs: where the Underlying Security is a listed company's share;
- exchange traded index ETOs: where, in simple terms, the Underlying Security is an index related to a number of listed companies' shares.

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

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

Call options give the taker (buyer) the right, but not the obligation, to buy the Underlying Securities, while put options give the taker (buyer) the right, but not the obligation, to sell the Underlying Securities.

The taker of the option is not obliged to exercise the option. The taker can sell the option before it expires, or alternatively let the contract lapse at expiry, but will lose the option premium.

When you buy a call option, you have no other rights to any Underlying Security, such as voting rights, shareholder discounts or company reports.

Provided the buyer pays the full amount of the premium which is non-refundable at the time the option is traded, the buyer will not be called upon to pay margins. Provided the underlying market has moved in the buyer's favour, the holder of an option can profit by selling the call option or exercising it and Closing Out the resulting contract. The profit depends on the movement in the underlying market as well as the amount of time left to expiry and is potentially unlimited. However if the conditions do not suit the buyer, then the options can be left to lapse and the buyer simply forgoes the premium paid.

On the other hand, sellers (granters) of option contracts have limited profit potential (they cannot earn more than the premium for which the option is sold). Margins will be called if the market price moves against the seller.

If an option is exercised, it results in making or taking delivery of the actual underlying security of the option, or making a cash adjustment based on a change in the price of the index.

### Out-of-the-money options

The term "out-of-the-money" is used to describe an option that cannot be exercised at a profit. An out-of-the-money option is a call option whose strike price is higher than the current market level or a put option whose strike price is below market.

If you contemplate purchasing a deep out-of-the-money option you should be aware that the chance of such an option becoming profitable is ordinarily remote particularly when there is a short term to expiry.

### European and American options

Options may be American or European style exercise. Most ASX options are American style, meaning they can be exercised at any time prior to or on the expiry day. European options, which include index options and LEPOs, can only be exercised on the expiry day and not before.

## 2.5 WHAT IS A LOW EXERCISE PRICE OPTION (LEPO)?

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

Although the buyer of a LEPO may only be required to outlay a relatively small amount of money as margin when the LEPO is entered into, at expiry if the buyer of a LEPO does not exercise the LEPO they will lose an amount approximately equal to the then current premium of the LEPO.

For more information refer to the ASX booklet entitled "Understanding LEPOs" available free on the ASX website at [www.asx.com.au](http://www.asx.com.au) or from us directly from our website [www.bby.com.au](http://www.bby.com.au).

## 2.6 COMPARISON OF EQUITY OPTIONS, INDEX OPTIONS AND LEPOs

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

	Equity option	Index option	LEPOs
Exercise style	American or European	European	European
Settlement	Physical delivery of Underlying Security	Cash settled	Physical delivery of Underlying Security
Underlying Security	Clearing House approved shares	Notionally a parcel of shares represented by a Clearing House approved index, although contract is cash settled rather than physical delivery of shares	Clearing House approved shares
Premium	Expressed in cents	Expressed in points	Expressed in dollars and cents
Exercise price	Expressed in cents	Expressed in points	Expressed in dollars and cents

## BBY EXCHANGE TRADED OPTIONS PRODUCT DISCLOSURE STATEMENT

	Equity option	Index option	LEPOs
Contract size	100 shares	The exercise price of the option multiplied by \$ value	100 shares (for equity LEPOs) or \$10 times the underlying index (for index LEPOs)

### SECTION 3 – HOW TO TRADE

#### 3.1 ESTABLISHING YOUR ACCOUNT

You need to establish your trading account by completing BBY's account application form, available from BBY's website or by contacting BBY directly.

The particular terms of a transaction are decided by you and BBY before entering into the transaction.

Before you make a transaction, BBY may require you to provide Margin to it. After you make a transaction, confirmation of the transaction will be given.

The fees and costs of transacting with BBY are set out in this PDS.

Settlement must occur on the agreed date. Changes to the specified date of a transaction are permitted only if you and BBY later agree.

Settlement must occur on the agreed date. Changes to the specified date of a transaction are permitted only if you and your Clearing Participant later agree.

#### 3.2 STATUTORY TRUST ACCOUNT

Before you transfer any money to a statutory trust account, you should carefully consider how your money will be held and used and the risks to you of depositing money into it.

Your payments for transactions to BBY will be first deposited into a statutory trust account maintained by BBY.

Money held in a statutory trust account is segregated from BBY's own funds. In brief, that means those funds are not available to pay general creditors in the event of receivership or liquidation of BBY.

Money held in a statutory trust account may be withdrawn or invested in accordance with the Corporations Act and, to the extent permitted by the Corporations Act, in accordance with your agreement with BBY and the account terms, which includes when authorised by you in writing.

BBY is entitled to retain all interest earned on the money held in their respective statutory trust accounts. You should be aware that, for statutory trust accounts:

- individual client accounts are not separated from each other;
- all clients' moneys are combined into one account;
- moneys and other assets in the statutory trust account belonging to non-defaulting clients are potentially at risk of being withdrawn and not being re-paid to the client even though they did not cause the default because the licensee may use the moneys as permitted by law to use client moneys in the statutory trust account to meet obligations incurred by it in connection with margining, guaranteeing, securing, transferring, adjusting or settling dealings

in derivatives by it, including dealings on behalf of people other than the client whose moneys were deposited into the trust account.

After receiving or depositing money into a statutory trust account, BBY may withdraw your funds from the statutory trust account to pay for your transactions (including for any Premium Margin, Risk Margin or any fees or charges or other payments which you owe to BBY).

In practical terms, when you make a payment which is placed into the statutory trust account, you are making payments which will be withdrawn to be used for the Margin, fees and charges in respect of your transactions.

#### 3.3 CLEARING AND SETTLEMENT ARRANGEMENTS

ETOs are options traded on the ASX's trading platform and cleared through the Clearing House. Participants of ASX must comply with the operating rules of the ASX. Participants who clear option contracts must comply with the operating rules of the Clearing House (Clearing Rules).

BBY is a participant of the Clearing House. The Clearing House is a licensed clearing and settlement facility under the Corporations Act.

All ETOs traded for you by BBY will be cleared by the Clearing House, subject to the Clearing Rules.

When BBY enters into an ETO transaction for you, the transaction is reported to the Clearing House for registration. On registration of a contract by the Clearing House, the original traded contract is terminated and replaced by two contracts, known as "Derivatives CCP Contracts". One of those is between the Clearing Participant who clears the contract for the buyer (taker) of the option contract and the Clearing House. The other is between the Clearing Participant who clears the contract for the seller (writer) of the option contract and the Clearing House. This process of registration and creation of two Derivatives CCP 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 free on the ASX website or from us directly from our website at [www.bby.com.au](http://www.bby.com.au).

You, as the client, are not party to either of those contracts actually registered with the Clearing House. Although we may act on your instructions or for your benefit, upon registration of the ETO with the Clearing House in BBY's name, BBY incurs obligations to the Clearing House as principal, even though the ETO may have been entered into on your instructions.

Since the Clearing House contracts with BBY as principal, if BBY has an exposure under an ETO contract to the Clearing House, the Clearing House will call amounts of money known as "Margin" from BBY as cover. Margins are generally a feature of all ETOs and are designed to protect the Clearing House against default. A margin is the amount calculated by the Clearing House as necessary to cover the risk of financial loss on an ETO contract due to an adverse market movement.

The seller (writer) of an ETO will ordinarily be required to pay margin in respect of that contract or provide collateral acceptable to the Clearing House. That is because the Clearing House is exposed to the risk that the seller will not perform its obligations if and when the option is exercised. The buyer (taker) of an ETO 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 and that is the maximum amount the buyer of the option can lose in respect of that contract (plus transaction costs).

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

- Premium margin – this is determined by reference to the market value of the Underlying Security at the close of business each day.
- Risk margin – this is the potential change in the price of the option contract assuming a maximum probable inter-day price move in the price of the Underlying Security.

Amounts of margin are determined daily by the Clearing House, following the close of trading each day. In times of extreme volatility an intra-day margin call may be made by the Clearing House.

BBY will call from you all amounts of margin which the Clearing House calls from BBY in respect of positions which we have entered into for you. The amount of Margin called from you may be greater than the amounts called by the Clearing House from BBY since BBY has its own risk policy.

Clearing House margin obligations may be met by paying cash or by providing certain types of eligible collateral (e.g. shares). Shares (held by you) which are acceptable to the Clearing House may be lodged with the Clearing House as collateral for margin obligations relating to ETO positions. When shares are lodged with the Clearing House, the shares are held by the Clearing House as third party security in the sense that they represent collateral provided by you to secure BBY’s obligations to the Clearing House. The lodged shares cannot be used by BBY in relation to their dealings or for their other clients in relation to their dealings unless authorised by you.

As a risk management tool, the Clearing House may apply a “haircut” in relation to the value of collateral lodged. For example, if you lodge \$10,000 worth of collateral and the Clearing House applies a 30% haircut, only \$7,000 will be considered as collateral cover for any margin obligations.

The margining process used by Clearing House is explained in detail in the ASX booklet “Understanding Options Trading” which is available free on the ASX website at [www.asx.com.au](http://www.asx.com.au) or from us directly from our website [www.bby.com.au](http://www.bby.com.au).

### 3.4 MARGINING OF TRANSACTIONS

The Margin requirements explained in this section 3.4 are in addition to the margin requirements explained in section 3.3 of this PDS.

Margin cover is usually required in these cases:

- as Premium Margin, the current market value of the option; or
- as Risk Margin, meaning the amount that the option value is likely to change in stressed market conditions.

Your agreement with BBY require you to pay Margin. We may make calls on you for Margin or to maintain a minimum required amount of Margin cover that must be paid to us.

Ordinarily the Margin you pay to BBY will be sufficient. As described in Section 3.2 “Statutory Trust Account” above, BBY would only withdraw moneys which you have paid it for products covered by this PDS in order to pay for amounts you owe BBY under the account terms.

BBY generally charges the margins set by the Clearing House but is entitled to demand or “call” (which means a demand for payment) a higher Margin than the minimum set in order to protect its own obligations incurred when dealing on your behalf or for your transaction. Liability for Margin occurs at the time of the trade and should be paid to BBY before any trading is conducted on your behalf.

Owing to the volatility of the market, the amount of Risk and Premium Margin may change after a position has been opened, requiring a further payment for Margin at that time. Premium Margin is the current cost to close out the option position. Risk margin covers the maximum expected variance in the value of the option in stressed market conditions.

You may be required to provide a minimum Margin cover whether or not you receive a Margin call. In other words, you are responsible for monitoring your positions and providing the required level of Margin cover. You might receive notice about minimum Margin cover requirements by email, telephone, SMS messages or any other appropriate means, but you need to provide the Margin cover whether or not you get these messages.

The value of your Open positions may be marked to market on a continuous basis, which automatically leads to corresponding changes in Margin cover requirements for your account. At weekends or at other times when trading on the relevant Exchange to the Underlying Security is closed, some Margin cover requirements automatically increase.

Apart from your obligation to maintain the required amount of Margin cover, you are also obliged to meet Margin calls by paying the required amount (in cleared funds) by the time stipulated in the Margin call. If no time is stipulated, payment is required within 24 hours of the Margin call being made. Sometimes, however (such as in unusually volatile market conditions or rapidly falling market prices), little or no time may be stipulated for paying a Margin call (that is, immediate payment is required) or more than one Margin call may be made on the one day including at weekends or outside of local business hours.

If you do not ensure you maintain the required level of Margin cover or meet the obligation to pay Margin calls (even those requiring immediate payment), all of your positions and collateral may be Closed Out and the resulting realised loss deducted from any proceeds. Any losses resulting from Closing Out your positions will be debited to your account and you may be required to provide additional funds to BBY to cover any shortfall. If you do not comply with your obligations, all of your positions can be Closed Out automatically.

It is your responsibility to pay your Margin cover and Margin call payments on time and in cleared funds, so please keep in mind the possibility of delays in the banking and payments systems. If your payment is not credited by the time you are required to have the necessary Margin cover or meet the Margin call, you could lose some or all of your positions and collateral. BBY may, but need not, give you any grace period. You should maintain a prudent level of Margin cover and make payments in sufficient time to be credited. See "Margin risk" in section 4.1 - Key risks.

BBY allows you to make payment in a number of ways. The most efficient way is by BPay® with a unique number for your Trading Account. Since those payment details may be unique to you, please contact your BBY adviser for arranging your payment methods.

### 3.5 CLOSING OR EXPIRY

Options have a limited term and expire on standard expiry days set by the ASX and form part of the contract specifications of the transaction. The expiry day is the day on which the unexercised option expires.

The purchaser of an option, whether it is a call option or a put option, has a known and limited potential loss. If a purchased option expires worthless, the purchaser will lose the total value paid for the option (known as the premium), plus transaction costs. Selling ("writing") options may incur considerably greater risk than purchasing options. The premium received by the seller of an option is fixed and limited; however, the seller may incur losses greater than that amount.

To close an option position before its expiry, you contact BBY, either by telephone or other means permitted by BBY, to determine the current market value or level for the Underlying Security, with the view to closing the position (or part of it). BBY will confirm the current market value or level and you will then decide whether to accept the value or level, and if so, you will instruct BBY to close your Open position in accordance with your instructions. Note that BBY will be able to place your order in the market at that level but that there is not a guarantee that your order will be able to be filled at this price.

In order to provide the transactions to you in an efficient and low-cost manner, BBY has a discretion in determining closing prices if the Exchange does not provide them (e.g., due to a trading halt or suspension) or if BBY determines in its discretion that the adjustment is appropriate (e.g., in the case of a corporate action (see under Section 3.7 "Dividends and Other Corporate Actions (Equity Options)" below). In general, without limiting BBY's discretion, it should be expected that BBY will act reasonably and have regard to a range of relevant factors at the time, such as the closing price (or level) of the Underlying Security for the transaction. In the worst case, it is possible that the closing price determined by BBY may be zero.

BBY also has the right to decide to make an adjustment in any circumstance if BBY and considers an adjustment is appropriate.

BBY has a discretion to determine the extent of the adjustment so as to place the parties substantially in the same economic position they would have been in had the adjustment event not occurred.

BBY may elect to close a position (without prior notice to you) if an adjustment event occurs and it determines that it is not reasonably practicable to make an adjustment.

Although there are no specific limits on BBY's discretions,

BBY must comply with its obligations as a financial services licensee to act efficiently, honestly and fairly.

### 3.6 DAILY VALUATION

During the term of a transaction, BBY will determine the value of your account, based on the value of the Open positions.

If trading in an Underlying Security is suspended or halted by the relevant Exchange (or the Underlying Security is an index which ceases to be published or be available), the open position will be re-valued by BBY.

### 3.7 DIVIDENDS AND OTHER CORPORATE ACTIONS (EQUITY OPTIONS)

The taker (buyer) of the call option or the writer (seller) of a put option does not receive dividends (nor have rights to any dividend imputation credits) or other shareholder benefits on the Underlying Securities until the shares are transferred after exercise.

If there is a corporate action by the company which issues the Underlying Security to which the equity option relates, usually the Exchange makes an adjustment to the terms of the option, though BBY may also do so in accordance with the account terms. For example, an adjustment will ordinarily be made for subdivisions, consolidations or reclassifications of shares, bonus issues or other issues of shares for no consideration, rights issues and other similar events.

Each of the Exchange and BBY also have their own right to decide to make an adjustment in any circumstance if they consider an adjustment is appropriate. Ordinarily, the adjustment made by the Exchange is applied but in exceptional cases (which cannot be specified in advance) it may be necessary for BBY to make an adjustment.

BBY has discretion to determine the extent of the adjustment so as to place the parties substantially in the same economic position they would have been in had the adjustment event not occurred.

BBY may elect to close a position if an adjustment event occurs and it determines that it is not reasonably practicable to make an adjustment. BBY may also elect to close the option position prior to the closing date of a takeover offer for the option's Underlying Securities.

Options do not entitle you to any voting rights in connection with the Underlying Security.

### 3.8 OTHER MARKET PARTICIPANT DEALINGS AND LIMITED RECOURSE

Once an order for a transaction is received, BBY will either execute the order itself or, if you permit, it may place the order with another Market Participant, depending on your order and the dealing services offered by BBY from time to time.

In order to place those orders with Market Participants for you, BBY is usually required to deposit moneys with the Market Participant. BBY funds this payment obligation by withdrawing some or all of your moneys from its statutory trust account.

The particular Market Participant used by BBY will depend on the trading used by the client or other decisions made in the discretion of BBY. Information on the Market Participants is available free of charge on request to BBY.

It is possible that BBY's Market Participant, or the custodian used by the Market Participant, may become insolvent or it is possible that other clients of that Market Participant may cause a default which reduces the financial resources or capacity for that Market Participant to perform its obligations owed to BBY and indirectly to you, so you could be exposed to the insolvency of its Market Participant or other defaults which affect the Market Participant.

BBY does not assure the performance and credit risk of other Market Participants. BBY limits its liability to you under the terms of the transactions by the extent to which BBY actually recovers against Market Participant and allocates that to your transaction.

It is therefore possible that BBY might not fully recover from each Market Participant due to reasons not arising from your own transactions, or it may incur costs in seeking the recovery or choose to terminate recovery efforts early, thereby reducing the proceeds available to BBY to allocate in its discretion to your transaction.

You are dependent on BBY taking any action to seek recovery. BBY has complete discretion as to how it pursues that action, although BBY would act honestly, fairly and efficiently in determining if and how to pursue that recovery action.

While, in theory, this is a significant risk to you, broadly this is economically comparable to the same risk you would face if you were to deal in the market directly with the same Market Participant and incur your own costs of seeking recovery.

The risks you have by dealing with BBY cannot be simplistically assessed by reference to historical financial information about BBY or other Market Participants.

The credit risk you have on BBY depends on its solvency generally, as well as on the amount (and kind) of its capitalisation, its cash flow, all of its business risks, its client and stock concentration risks, its counterparty risks for all of its business and transactions (not just the transactions), its risk management systems and actual implementation of that risk management. Your credit risk on BBY will fluctuate throughout the day and from day to day, including due to the implied credit risk on other Market Participants, whose credit risk to BBY (and so indirectly to you) cannot be assessed or verified on a continuous basis or perhaps at all. You should take into account all of those factors and not rely only on past financial statements since that could be materially incomplete information for your purposes, not current and therefore potentially misleading as a guide to the current solvency and credit-worthiness of BBY.

The BBY annual directors' report and an audited annual financial report are available free on request by contacting BBY.

You should note that:

- No other Market Participant has been involved in the preparation of this PDS nor authorised any statement made in this PDS relating to it, even if named in it.
- BBY gives no assurance as to the solvency or performance of any other Market Participant. BBY does not make any express or implied statement about the solvency or credit rating of any other Market Participant.
- The regulation of a Market Participant is no assurance of the credit quality of that Market Participant or

of any regulated or voluntary scheme for meeting the claims of creditors of the Market Participant. For example, although a Market Participant may be licensed by the Australian Securities and Investments Commission, that gives no assurance that the Market Participant has good credit quality or it will perform its obligations to BBY.

- The credit quality of a Market Participant can change quickly. BBY is not able to make assessments of the credit quality of Market Participants which it can disclose and reports by independent credit rating agencies may not be available because of their lack of consent or because they are not licensed to allow such reports to be cited in PDS given to retail clients.
- If material information about a Market Participant in this PDS changes or a significant matter later changes, BBY will issue a supplementary product disclosure statement, a replacement product disclosure statement or a new product disclosure statement. If the new information is not materially adverse to you, BBY will provide the updated information on its website.

BBY is not authorised to set out in this PDS any further information published by other Market Participants and BBY takes no responsibility for third-party information about those Market Participants which may be available to you. If you require further information about the Market Participants used by BBY before deciding whether to invest in them, please contact BBY who will reasonably assist you to locate such other information as is publicly available to BBY.

### 3.9 CONFIRMATION OF TRANSACTIONS

After you have placed an order for a transaction, the confirmation of that transaction, as required by the Corporations Act, will be given to you.

If you have provided BBY with an e-mail or other electronic address, you consent to confirmations being sent electronically. It is your obligation to review the confirmation immediately to ensure its accuracy and to report any discrepancies within 48 hours.

BBY may from time to time appoint an agent to provide the confirmation and the confirmation may be a joint confirmation covering the services of BBY and of the agent for the same transaction.

### 3.10 BBY INSURANCE

BBY has a comprehensive insurance policy in place to cover a variety of different scenarios, some which may assist in the repayment of deficits arising from dealing with other Market Participants or if there is fraudulent activity by one of BBY's employees, directors or authorised representatives that results in your money being used in fraudulent activities. If the insurance policy is insufficient or the insurer fails to perform its obligations, BBY may not be able to make the payments it owes to you.



### 3.11 MARKET CONDUCT

All Market Participants (including BBY) have a legal obligation to ensure that the markets are fair, orderly and transparent. BBY clients should be aware that some practices in placing orders can constitute market manipulation or creating a false market which is conduct prohibited under the Corporations Act. It is the client's responsibility to be aware of unacceptable market practices and the legal implications. The client may be liable for penalties to regulators such as ASIC or be liable to BBY for costs to BBY arising out of those trading practices of the client which lead to the client, BBY, a Market Participant or any other person suffering loss or penalty.

### SECTION 4 – SIGNIFICANT RISKS

#### 4.1 KEY RISKS

The transactions involve a number of significant risks. You should seek independent advice and consider carefully whether the transactions are appropriate for you given your experience, financial objectives, needs and circumstances.

**Market Risks:** Options' trading is highly speculative and volatile. There is no guarantee or assurance that you will make profits, or not make losses, or that unrealised profits or losses will remain unchanged. You may incur large losses in short periods of time and may be unable to limit your losses. Your losses may not be limited to the credit balance of your account with BBY or amount of Margin paid by you.

The markets in general are subject to many influences which may result in rapid fluctuations and reflect unforeseen events or changes in conditions with the inevitable consequence being market volatility. There may be underlying markets (commodity, foreign exchange), whose combined volatility may significantly increase the complexity of movements in pricing of your transactions (including your Close Out contracts).

If you are entering into options as a hedge, the impact of market volatility will not affect your position unless you have over hedged or under hedged.

Past performance of markets, and currencies in particular, is never an assurance of future performance. The value of your account with BBY may fluctuate according to share prices, exchange rates and interest rates, as well as other market conditions which are outside of your control and which cannot be forecast.

Under market conditions from time to time, it could be difficult or impossible to Close Out a transaction at a price that would confine the loss sustained by you within the amount of your account with BBY. Your loss on a transaction could be very substantial, even if you try to Close Out the transaction.

BBY's ability to Close Out an option depends on the market on which the option is traded and the Underlying Securities.

Options may at times not be liquid investments. If you want to exit your option early, you rely on BBY's ability to close it out early, which might not match the liquidity or price of the Underlying Security.

**Margin risk:** You could lose all of the Margin you pay. You could sustain a loss, greater than, and not limited to, the Margin that you have paid to establish or maintain

a position, if you do not maintain the required amount of Margin cover or your payment for a Margin call is not received in cleared funds by the required time. (See section 3.4 for more description of Margin requirements.)

The amount of required Margin cover ordinarily changes automatically when the value of your positions are changed, and this happens continuously because the value of the transactions are ordinarily marked to market on a continuous basis. When the Exchange for the Underlying Security is closed, there may be and usually is a further adjustment to Margin cover requirements to cover the risk of significant price movements occurring when the Exchange next opens.

It is solely your responsibility to maintain any required Margin cover (and not rely on or wait for any notice from BBY) so you should monitor your account's Margin cover requirements and ensure you make sufficient payments in time.

Your other risk mentioned above is whether you can meet your obligation to satisfy a Margin call for payment of a Margin Call in order to maintain your position. The amount of the Margin Call may be substantial. There is no limit on the amount of Margin which may be called in order to meet a revised valuation of your transaction. There is no set time for meeting payment of a Margin call – the time we set can vary from time to time and at times can be at little notice (only a couple of hours) or no notice at all. If we do not specify in a Margin call how much time you have, then the time is 24 hours. Whatever the specified time for meeting your margin call, you must meet it regardless of how you propose to satisfy it – you take the risk of your payment not being received in time in cleared funds.

If you fail to provide the additional moneys (for a Margin call) in cleared funds within the required time or you fail to maintain the required amount of Margin cover (or both), all or some of your positions may be liquidated (probably at a loss) and you will be liable to pay BBY for any shortfall resulting from your failure. If a position is Closed Out, all of it may be closed - not just the proportion needed to cover the Margin call or meet the overall Margin cover requirements.

When managing your Margin cover requirement and meeting your Margin calls, please be reminded that any additional moneys paid by you into a statutory trust account must be withdrawn and credited as cleared funds before they will be taken as satisfying your obligation to maintain the required Margin cover or to meet a Margin call. Due to the continuous revaluing of your positions and delays in banking and payment systems, you have the risk that your positions may be liquidated before you have an opportunity to pay additional moneys or before any additional moneys that you paid into the statutory trust account have had the opportunity to be withdrawn and be credited as cleared funds.

It is usually good investment practice to maintain an adequate buffer in your account with BBY and have prudent levels of leverage in order to manage the risk of not having sufficient Margin cover at any time.

**Leverage:** Transactions are leveraged because of the small Margin or other upfront payment from you. The leverage can work against you as well as for you. The use of leverage can lead to gains or to large losses, significantly disproportionate to your initial payment, Margin payments or other moneys credited to your account with BBY. You could lose all of the Margin you pay, including the Premium Margin and any Risk Margin. Examples of this are shown in Section 5.6.

Generally, the larger the leverage, the greater the risk of larger losses (as well as the possibility of larger gains) and also the amount of Margin cover (or Margin calls) will generally be larger. You should consider reducing the amount of leverage in your account with BBY to a level that suits your needs and financial situation.

**Under or Over Hedge:** If you have not correctly hedged your exposure by giving orders to us to enter into transactions, you may decide under your own risk management policies to add or to Close Out some of those transactions (to match your exposure). You will need to take into account the cost of additional hedging adjustment contracts when considering your overall risk management.

**Regulatory bodies:** You may incur losses that are caused by matters outside the control of BBY or other Market Participants. 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 to you.

**Market disruptions/emergencies:** A market disruption may mean that you are unable to deal in the transactions when you desire and you may suffer a loss as a result. Common examples of disruption include the “crash” of a computer based trading system, fire or other Exchange emergency, an Exchange regulatory body declaring an undesirable situation has developed in relation to a particular series of contracts and suspends trading.

**BBY's powers on default, indemnities and limitations on liability:** If you fail to pay, or provide security for, amounts payable to BBY or fail to perform any obligation under your transactions, BBY has extensive powers under the account terms with you to take steps to protect our position including, for example, the power to Close Out positions and to charge interest on debit balances. Under the account terms you also indemnify BBY for certain losses and liabilities, including, for example, in default scenarios.

BBY reserves its rights to exercise these powers if it determines that it would be reasonable and fair to do so.

**Statutory Trust Account:** For so long as your moneys are held in a statutory trust account, you have the risk that the moneys may be withdrawn and not be re-paid to you because the moneys may be used for purposes other than in respect of your transaction, namely the risk of moneys being withdrawn and not being re-paid to you because the moneys in the statutory trust account may be used to meet obligations incurred in connection with margining, guaranteeing, securing, transferring, adjusting or settling dealings in derivatives, including dealings on behalf of people other than the client whose moneys were deposited into the trust account (see the description in section 3.2 - Statutory Trust Account).

If your funds are withdrawn from the statutory trust account for those other purposes, your risk is on the licensee who withdrew that money for the return of your client money. If the licensee who withdrew that money

were to have reduced financial capacity or become under external administration, then it may be unable to meet its obligations to you in full, or at all. The following are factors which may affect your assessment of this risk:

- The licensee must comply with the financial requirements imposed on it under its AFS licence.
- Although it is not expected that your moneys for your options trading will be held in BBY's statutory trust account, BBY will provide a copy of its most recent available financial statements (free of charge) on request.

**Operational Risk:** There is always operational risk in a transaction. For example, disruptions in operational processes such as communications, computers and computer networks, or external events may lead to delays in the execution and settlement of a transaction. You rely on BBY performing its obligations.

**Contract size:** The ASX standardises an equity option contract size at 100 Underlying Securities. That means one option contract represents 100 Underlying Securities. This may change if there is an adjustment following a corporate action, such as a new issue of securities or a reorganisation of capital in the Underlying Security.

### 4.2 GENERAL RISKS

BBY strongly recommends that, if you are not fully familiar with ETOs, you obtain independent legal, financial and taxation advice before proceeding with a transaction.

Further, BBY recommends that you should consider the following:

- It is your responsibility to understand the nature and risks associated with the financial products covered by this PDS and each transaction.
- In entering into any transaction, neither BBY nor any of its representatives will advise you, or is to be taken as advising you, as to any strategy, risk profile or financial result.
- Options trading is highly speculative and volatile. There is no guarantee or assurance that you will make profits, or not make losses, or that unrealised profits or losses will remain unchanged.
- Past performance of markets is never an assurance of future performance.
- The value of your account may fluctuate due to various market conditions which are outside of your control and which cannot be forecast.
- Trading through BBY may give rise to actual or potential conflicts of interests, because when BBY is acting with you it may be transacting with other persons, at different prices. The policy used by BBY is that when it issues the transactions to you, the transaction is based on the price it obtains on-market from acting reasonably in performing its services to you, in accordance with Exchange rules and its obligations as a licensee.

- Information about prices or index levels may come from several sources and may not be current at the time given to you. BBY does not take responsibility for information about financial market data or statements and BBY relies on your acknowledgment that you do not rely on any such information given to you or discussed with you. BBY only undertakes to perform the transaction agreed with you at the price for that transaction, and not at any other price available in the market.
- BBY has the discretion to determine the closing value of your positions if there has been a corporate action, a trading halt or suspension, If the Exchange fails to provide relevant market information (for example, due to a failure in the Exchange's trading system or data information service) or if BBY considers an adjustment is appropriate. In common with industry practice for such financial products, BBY's discretion is unfettered and so has no condition or qualification. Although there are no specific limits on BBY's discretions, in performing this role and in view of potential conflicts of interests, BBY must comply with their obligations as a financial services licensee to act efficiently, honestly and fairly. You therefore have the risk of relying on whatever value is determined by BBY in accordance with the account terms.

### SECTION 5 – COSTS, FEES & CHARGES

#### 5.1 FEES & COMMISSIONS

The cost of trading in ETOs is made up of: the premium you pay for the contracts; the brokerage you pay us and the fees you pay to any Exchange or Clearing House on acquiring the ETOs. If you write the ETO, you will also be required to lodge collateral as Margin cover.

The standard fees you will be typically charged for ETOs start between 1.1% and 1.65% (including GST) of the premium, up to a maximum of 2.2% with a minimum of up to AUD\$82.50 (including GST) per transaction.

The fees are owed immediately upon execution of the trade, and ordinarily will be paid to us from your client moneys held in the statutory trust account on a monthly basis or when you close your Account (or, if that is not done, they can be deducted from your Trading Account). Please note that GST if applicable will be charged on all brokerage and fees and will be denominated in the currency of the country of the exchange that you are trading on.

Fees charged by the Exchange for execution and clearing of transactions vary from Exchange to Exchange and can be found on each particular Exchange's website.

BBY may charge a brokerage or commission for exercise of an option into a share: refer to the BBY Financial Services Guide (FSG) for fees charged on these services.

#### 5.2 PREMIUM

The premium is the price paid for the option which is arrived at by negotiation between the taker (buyer) and the writer of the option. For exchange-traded options, it is the usually set by the market – whether you are willing to pay or to sell at market prices.

Equity option premiums are quoted on a cents per share basis. To calculate the full premium payable for a standard size option contract, multiply the quoted premium by the number of shares per contract, usually 100.

For example, a quoted premium of 15 cents represents

a total premium cost of AUD\$15.00 (\$0.15 x 100) per contract. To calculate the full premium payable for an equity index option, you simply multiply the premium by the index multiplier. For example, a premium of 20 points, with an index multiplier of AUD\$10, represents a total premium cost of AUD\$200 per contract.

#### 5.3 EXCHANGE FEES

Fees charged by an Exchange vary from Exchange to Exchange and can be found on that particular Exchange's website. A list of Exchange websites can be obtained from BBY upon request (free of charge). Exchange fees are charged for execution and clearing of ETOs.

Option contracts which are either exercised or assigned will be charged fees in accordance with the relevant Exchange's fees on which the option is traded.

For example, the Clearing House charges a transaction fee of \$0.143 per option contract (including GST). If you exercise an equity option, the Clearing House charges an exercise fee of \$0.05 per contract (excluding GST). In the case of index options, the Clearing House charges \$0.45 per contract (excluding GST), And \$0.35 per contract for exercise and assignment (excluding GST).

For more detailed information, you should check the ASX fees and charges schedule at [www.asx.com.au](http://www.asx.com.au).

#### 5.4 FINANCE CHARGES

This section describes finance charges imposed by BBY on your Account or specific transactions. There might be occasions when you have paid moneys to BBY or we require Margin from you, in which case this section is relevant to your Account.

If BBY places any of your moneys into its statutory trust account, BBY will be entitled to earn any interest on positive balances in that account. It may entirely at its discretion pay you any or all of such interest, at such rates and for so long as it chooses.

If your Trading Account is in debit i.e. negative, the interest rate charged on each debit balance will be at BBY's prevailing rate for debit balances (accruing daily), which changes according to market conditions. The prevailing rate may be published on BBY's website from time to time or you can contact BBY to request the rate (free of charge).

The debit interest generally will appear in your statement on a monthly basis, or only at other intervals, such as month end or end of the transaction, depending on how you are dealing in those transactions.

#### 5.5 EXTERNAL FEES, TAXES AND CHARGES

You are responsible for any stamp duty, transaction duty, GST or similar goods and services or value added tax payable in respect of trading in transactions (except for any income tax payable by BBY). Bank charges and fees imposed on BBY to clear your funds or in respect of your payments will also be charged to your Trading Account .

## BBY EXCHANGE TRADED OPTIONS PRODUCT DISCLOSURE STATEMENT

The account terms may allow BBY to impose other fees or charges from time to time which do not relate directly to transactions (and so are not costs, fees or charges for acquiring or later dealing in the transaction itself). For example, you may be required to pay royalty or similar charges set by data providers (e.g., the ASX) for your use of information feeds or for online transaction services. BBY may debit these amounts to your Trading Account.

### 5.6 TRADING EXAMPLES

The regulations and practices for Exchanges inside and outside of Australia may differ greatly, including margining, local taxes and the rules for trading.

For more information regarding various ETO strategies and examples refer to the ASX booklet entitled "Options Strategies" available free on the ASX website at [www.asx.com.au](http://www.asx.com.au).

You should also see the publications released by other Exchanges, usually available through their websites.

#### Buying Options

##### Example 1: Buying Equity Call and Put Option Contracts

The examples in this PDS assume 100 shares per option contract with GST applicable on the brokerage.

XYZ Corporation (XYZ) shares are trading at \$8.50.

Scenario 1, anticipating an increase in the share price, you buy 10 XYZ, 3 month duration 850 calls for \$0.45 or \$450.00 total premium (\$0.45 x 100 shares x 10 contracts).

Brokerage or commission is charged at 1.1% (including GST) of the premium, with a minimum of up to A\$82.50 (including GST) on each derivative transaction. The Clearing House charges \$0.13 (i excluding GST) fee per contract for ETO share transactions and AUD\$0.05 (including GST) fee for exercising a contract.

#### Scenario 1

OPENING	CALL OPTION
TRANSACTION	BUY 10, XYZ 850 CALL for \$0.45 per share
PREMIUM PAID	\$ 450 (0.45 x 100 shares x 10 contracts)
EXCHANGE FEES	\$ 1.30 (excluding GST) (0.13 x 10 contracts)
COMMISSION	= \$82.50 (INCL GST)
TOTAL INITIAL COST	\$533.93

Scenario 2, anticipating a fall in the share price, you buy 10 XYZ, 3 month duration 850 puts for \$0.45 or \$450.00 total premium (\$0.45 x 100 shares x 10 contracts).

#### Scenario 2

OPENING	CALL OPTION
TRANSACTION	BUY 10, XYZ 850 PUT for \$0.45 per share
PREMIUM PAID	\$ 450 (0.45 x 100 shares x 10 contracts)
EXCHANGE FEES	\$ 1.30 (excluding GST) (0.13x10 contracts)

OPENING	CALL OPTION
COMMISSION	\$82.50 (INCL GST)
TOTAL INITIAL COST	\$533.93

Close to the expiry day, XYZ shares are trading at AUD\$9.50. The call option premium is now valued at AUD\$1.02 per option and the put option premium is valued at AUD\$0.02 per option.

You can exercise the call option and buy 1,000 XYZ shares for AUD\$8.50, which is AUD\$1.00 below the current market price, realising a gain of AUD\$55 per share (excluding fees and commissions). In regards to the put option this would not be exercised as the shares are trading AUD\$1.00 above the strike price and would expire worthless.

If brokerage or commission is charged at 1.1% (including GST) of the total transaction value with a minimum of up to AUD\$50.00 (including GST) on the exercise of the derivative transaction and the execution of the share transaction.

Alternatively in relation to scenario 1, you can Close Out the call option by selling 10 XYZ AUD\$8.50 calls at AUD\$1.02 (the current premium) and realise a gain of AUD\$0.57 per option (excluding fees and commissions). In regards to scenario 2, you can Close Out the put option on ASX's options market by selling 10 XYZ AUD\$8.50 puts for AUD\$0.02 (the current premium) and realise a loss of AUD\$0.43 per option (excluding fees and commissions). The 2 cent difference between exercising and closing out of the option is due to the option having some remaining time value.

The most the call or put option buyer can lose, (excluding the fees and charges) is the price of the option, worth, in this example is AUD\$450.

The table summarises the two alternatives for each scenario.

#### Scenario 1

CLOSING	CALL OPTION EXERCISE ON EXPIRY	CALL OPTION CLOSE OUT PRIOR TO EXPIRY
EXERCISE	BUY 1,000, XYZ SHARES AT \$8.50	
TRANSACTION	SELL 1,000, XYZ SHARES AT MKT PRICE OF \$9.50	SELL 10, XYZ AUD\$8.50 CALL AT \$1.02
GROSS PROFIT	\$453.20 ((9.50 – 8.50) x 1,000 shares – 546.80))	\$473.20 (1.02 x 100 x 10 contracts – 546.80)
COMMISSION – OPTION EXERCISE / TRADE	\$93.50 (INCL GST) (1.1% x 1,000 * 8.50)	\$82.50 (INCL GST)
COMMISSION – SHARE TRADE	\$104.50 (INCL GST) (1.1% x 1,000 * 9.50)	
EXCHANGE FEES	\$ 0.55 (INCL GST) (0.55 x 10 contracts )	\$1.43 (INCL GST) (0.143 x 10)

## BBY EXCHANGE TRADED OPTIONS PRODUCT DISCLOSURE STATEMENT

CLOSING	CALL OPTION EXERCISE ON EXPIRY	CALL OPTION CLOSE OUT PRIOR TO EXPIRY
NET PROFIT	\$ 254.65(453.20 - 93.50 - 104.50 - 0.055 x 10)	\$389.27 (473.20 - 82.50 - 1.43)

### Scenario 2

CLOSING	PUT OPTION EXERCISE ON EXPIRY	PUT OPTION CLOSE OUT PRIOR TO EXPIRY
EXERCISE	Expire unexercised	
TRANSACTION	None	SELL 10, XYZ \$8.50 PUT AT AUD\$0.02
GROSS LOSS	\$533.93	\$513.93 - 513.93 (\$533.93 - 0.02 x 100 x10 )
COMMISSION - OPTION EXERCISE / TRADE		\$82.50 (INCL GST)
COMMISSION - SHARE TRADE		
EXCHANGE FEES		\$ 1.43 (INCL GST) (0.143 x 10)
NET LOSS	\$533.93	\$597.86 (513.93 + 82.50 + 1.43)

### Selling Options

The writing of an option offers the opportunity to earn income from an option's premium, however, the selling of options holds a much greater risk as losses are not limited in comparison to the purchase of options where only the premium paid is at risk. Fundamentally a writer of out-of-the money put options hold a view that the underlying share price will remain steady or rise, relative to the current market, whereas a writer of out-of-the money call options expect the underlying share price to remain steady or fall, relative to the current market.

Example 2: Selling an Equity Call and Put Option Contracts

The examples in this PDS assume 100 shares per option contract and GST is applicable.

XYZ Corporation (XYZ) shares are trading at AUD\$8.50.

Scenario 1, you sell 10 XYZ, 3 month AUD\$9.00 call for AUD\$45 cents per share.

Scenario 2, you sell 10 XYZ, 3 month AUD\$8.00 put for AUD\$45 cents per share.

If brokerage or commission is charged at 1.1% (including GST) of the premium, with a minimum of up to AUD\$82.5 (including GST) on each derivative transaction. The Clearing House charges AUD\$1.43 (including GST)

fee per contract for ETO transactions and a AUD\$0.55 (including GST) fee for exercising a contract.

### Scenario 1

OPENING	CALL OPTION
TRANSACTION	SELL 10, XYZ \$9.00 CALLS for \$0.45 per contract
PREMIUM RECEIVED	\$ 450 (0.45 x 100 x 10 contracts)
EXCHANGE FEES	\$ 1.43 (INCL GST) (0.143 x 10 contracts)
COMMISSION	= \$82.50 (INCL GST)
TOTAL INITIAL REVENUE RECEIVED	AUD\$366.07

### Scenario 2

OPENING	PUT OPTION
TRANSACTION	SELL 10, XYZ \$8.00 PUT for \$0.45 per contract
PREMIUM RECEIVED	\$ 450 (0.45 x 100 x 10 contracts)
EXCHANGE FEES	\$ 1.43 (INCL GST) (0.143 x 10 contracts)
COMMISSION	=AUD\$82.50 (INCL GST)
TOTAL INITIAL REVENUE RECEIVED	AUD\$366.07

Close to the expiry date, XYZ shares are trading at AUD\$10.50. The call option premium is now AUD\$1.65 per share and the put option premium is AUD\$0.02 per share.

If you are exercised against, you must sell 1,000 XYZ shares at AUD\$9.00 per share. If you do not already own the XYZ shares you will be obliged to buy 1,000 XYZ shares, which is AUD\$1.50 above the current market price, realising a loss of AUD\$1.50 per share (excluding fees and commissions).

In regards to the put option this would not be exercised against you as the shares are trading AUD\$2.50 above the strike price and would expire worthless.

If brokerage or commission is charged at 1.1% (including GST) of the total transaction value with a minimum of up to AUD\$82.50(including GST) on the exercise of the derivative transaction and the execution of the share transaction.

## BBY EXCHANGE TRADED OPTIONS PRODUCT DISCLOSURE STATEMENT

Alternatively in relation to scenario 1, you can close out the short call options by buying 10 XYZ AUD\$9.00 call for AUD\$1.65 (the current premium) and realise a loss of AUD\$1.20 per option (excluding fees and commissions). In regards to scenario 2, you can close out the put option by buying 10 XYZ AUD\$8.00 puts for AUD\$0.02 (the current premium) and realise a profit of AUD\$0.43 per option (excluding fees and commissions).

The points difference between the exercise and close out price of either option is due to the options having some remaining time value.

The table summarises the two alternatives for each scenario.

### Scenario 1

CLOSING	CALL OPTION EXERCISE ON EXPIRY	CALL OPTION CLOSE OUT PRIOR TO EXPIRY
EXERCISE	SELL 1,000, XYZ SHARES AT \$9.00	
TRANSACTION	BUY 1,000, XYZ SHARES AT MKT PRICE OF \$10.50	BUY 10, XYZ \$9.00 CALL AT \$1.65
GROSS LOSS	\$1,133.93 (10.50 – 9.00 x 1,000 shares – 366.07)	\$1,283.93 (1.65 x 100 x 10 contracts – 366.07)
COMMISSION – OPTION EXERCISE / TRADE	\$99 (INCL GST) (1.1% x 1,000 x 9.00)	\$82.50 (INCL GST)
COMMISSION – SHARE TRADE	\$115.50 (INCL GST) (1.1% x 1,000 x 10.50)	
EXCHANGE FEES	\$0.55 (INCL GST) (0.055 x 10 contracts )	\$ 1.43 (INCL GST) (0.143 x 10)
NET LOSS	\$1,348.98 (1,133.93 + 99 + 115.50 + 0.55)	\$1,367.86 (1,283.93 + 82.50 + 1.43)

### Scenario 2

CLOSING	PUT OPTION AT EXPIRY	PUT OPTION CLOSE OUT PRIOR TO EXPIRY
EXERCISE	Expires unexercised	
TRANSACTION		BUY 10, XYZ \$8.00 PUTS AT \$0.02
GROSS GAIN	\$366.07	\$346.07 (366.07 - 0.02 x 100 x 10 contracts)
COMMISSION – OPTION EXERCISE / TRADE		\$82.50 (INCL GST)

CLOSING	PUT OPTION AT EXPIRY	PUT OPTION CLOSE OUT PRIOR TO EXPIRY
COMMISSION – SHARE TRADE		
EXCHANGE FEES		\$ 1.43 (INCL GST) (0.143 x 1)
NET GAIN	\$366.07	\$262.14(346.07 - 82.50 – 1.43)

### NOTES TO ALL EXAMPLES IN THIS PDS:

- The above examples are to illustrate the impact of key variables on the outcome of a transaction. They are not forecasts or projections of any particular transaction.
- The worked examples illustrate in dollar terms how trading incurs fees, charges or other payments. These examples are not intended to be exhaustive and document every trading strategy.
- The examples use simplifying assumptions by not taking into account a client's tax rate or overall tax position, potential changes in interest rates charged to or earned on the client's account or the time value of money. While these variables will undoubtedly change the outcome of a transaction, they are normal market variables which cannot now be predicted and so must be taken into consideration by a potential investor in transactions.
- Margin requirements, interest rates and external charges may of course change at any time.

### SECTION 6 – GENERAL INFORMATION

#### 6.1 QUERIES AND DISPUTES

Any disputes about fees or charges must be brought to our attention within five (5) calendar days of the fee being applied. See section 6.10 – Dispute Resolution.

#### 6.2 ROLE OF BBY

This PDS covers your trading in ETOs over the desk at BBY – this means that BBY will accept your order by telephone or email (or other means agreed between you and BBY) and BBY as your agent, places the order on the Exchange.

#### 6.3 ABOUT BBY

BBY is an Australian owned investment company. We are a Market participant of the ASX. Further information about BBY is available on its website at [www.bby.com.au](http://www.bby.com.au).

### 6.4 IF YOU USE YOUR OWN AGENT

Some clients use an agent to trade on their behalf with BBY. If you have used your agent to trade with BBY, our dealings remain legally with you, not your agent. You are responsible to us and we are responsible to you, even though orders may be placed only through your agent with us and we will only communicate with your agent. You may be required to pay a fee or other charge to your agent. This should be disclosed in your agent's financial services guide to you.

We will rely on your agent to give us your orders and otherwise to give us instructions about your Trading Account or to receive notices from us. We are not obliged to try to contact you directly and will not attempt to do so. You should study your arrangement with your agent carefully and abide by the terms of your agreement with your agent.

### 6.5 APPLICATIONS

You apply for a Trading Account by returning to BBY a completed application forms which accompanies the booklet with the account terms, available by contacting BBY via the website or directly. By opening a Trading Account with us you agree to the account terms.

Individual transactions are made by contacting your BBY advisor.

### 6.6 TAXATION IMPLICATIONS

Transactions will have taxation implications for you, depending on the current tax laws and administration, the nature of the client for tax laws, the terms of the transactions and other circumstances. The taxation implications discussed below are general in nature and are not intended to provide any tax advice to you. It is therefore vital for you to consult your tax adviser before making any decisions to deal in the transactions.

If you are an Australian resident for income tax purposes, profits and losses arising from dealing in derivatives may affect your personal income tax. You may also have tax liabilities in other jurisdictions if you deal in derivatives in overseas exchanges.

The implications under the Australian tax laws depend on whether your transactions are classified as trading, hedging or speculative.

If you are a non-Australian resident for income tax purposes, you may still need to consider your Australian tax implications if you deal in ETOs in Australia, where your profit/loss is sourced in Australia and you deal in derivatives out of a fixed base in Australia.

### 6.7 COOLING OFF

There is no cooling off arrangement for transactions. This means that you do not have the right to return the transactions, nor request a refund of the money paid to deal in the transaction. If you change your mind after entering into a transaction with BBY, you must Close Out, pay any transaction costs and take the risk of incurring a loss in doing so.

### 6.8 ETHICAL CONSIDERATIONS

Transactions made under your Trading Account do not have an investment component. Labour standards or environmental, social or ethical considerations are not taken into account by BBY when making, holding, varying or ending transactions.

### 6.9 TRADEMARKS

References in this PDS to trademarks are for illustration or identification only. Those trademarks are owned by their respective proprietors and no involvement in this document or any other endorsement or licence by them is implied or intended.

### 6.10 DISPUTE RESOLUTION

BBY wants to know about any problems you may have with the service provided to you so we can take steps to resolve the issue. If you have a complaint about the financial product or service provided to you, please take the following steps:

1. Contact your adviser and provide the details of your complaint. You may do this by telephone, facsimile, email or letter.
2. If your complaint is not satisfactorily resolved through your adviser, within three business days of receipt of your complaint, please contact the Compliance Department on 1800 551 212 or put your complaint in writing and send it to the Compliance Department at:

**Level 17  
60 Margaret St  
SYDNEY NSW 2000**

BBY will try to resolve your complaint quickly and fairly. Complaints received in writing will be acknowledged within five business days of written receipt of your complaint and we will use our best endeavours to try to resolve your complaint within 30 days of receipt of your written complaint.

3. If you still do not get a satisfactory outcome, you have the right to complain to the Financial Ombudsman Service Ltd (FOS), if your complaint is within its rules. FOS is an external dispute resolution scheme. The contact details for FOS are:

**Financial Ombudsman Service Limited  
G.P.O. Box 3  
Melbourne VIC 3001  
Telephone: 1300 780 808  
Website: [www.fos.org.au](http://www.fos.org.au)**

BBY is a member of the FOS complaints resolution scheme. The service provided to you by FOS is free.

4. The Australian Securities and Investments Commission (ASIC) also has an Info line on 1300 300 630 which you may use to make a complaint and obtain information about your rights.

### 6.11 PRIVACY

All of the information collected by BBY, in the application form or otherwise, is used for maintaining your Trading Account and for the purpose of assessing whether you, as a prospective Client, would be suitable for the transactions and financial services, having regard to your financial and personal circumstances and trading experience.

BBY has obligations under, and has procedures in place to ensure its compliance with, the Privacy Act 1988 (Cth). Significantly, these include the following:

## 1. Collecting personal information

In collecting personal information, BBY is required to collect only information which is necessary for the purpose described above and ensure that collection of the information is by fair and lawful means; and to take reasonable steps to make you, the individual, aware of why the information is being collected and that you may access the information held by us.

If necessary, BBY also collects information on directors of a corporate client or agents or representatives of the client. BBY may be required by law to collect information, such as for taxation purposes or to identify persons who open or operate an account.

BBY may take steps to verify information given to it, such as consulting registries, referees, employers or credit agencies.

This information will not be disclosed to any other person although BBY may disclose this information to its related bodies corporate if you intend to use the services of any of those related bodies corporate.

## 2. Using the personal information

Once BBY has collected the information from you, BBY will only use the information for the purposes described above unless you consent otherwise.

Personal information may be disclosed to:

- any person acting on your behalf, including your advisor, accountant, solicitor, executor, attorney or other representative;
- related bodies corporate of BBY if you use, or intend to use, services of those other corporations;
- any organisations to whom we outsource administrative functions;
- brokers or agents who refer your business to us (so that we may efficiently exchange information and administer your account);
- regulatory authorities; and
- as required or permitted by law or by court order.

This information will not be disclosed to any other person without your consent.

You may access your personal information held by BBY (subject to permitted exceptions), by contacting BBY. We may charge you for that access.

As BBY is obliged by law to take reasonable steps to ensure that the personal information used is accurate, up to date and complete, please inform us immediately if any of the information provided in this section changes.

## 3. Retaining personal information

BBY has implemented and maintains secure protection of all personal information obtained from misuse, loss, unauthorised access, modification or disclosure. The information will be destroyed or de-personalised if BBY no longer requires the information for the purpose referred to above.

## SECTION 7 – GLOSSARY

**Account** means your account with BBY established under the account terms, including all Trading Accounts and all transactions recorded in them.

**ASX** means ASX Limited (ABN 98 008 624 691).

**Australian Dollars or AUD\$** means the lawful currency of the Commonwealth of Australia.

**BBY** means BBY Limited ABN 80 006 707 777.

**Clearing House** means Australian Clearing House Pty Limited (ABN 48 001 314 503).

**Clearing Participant** means a participant of the Clearing House. For this PDS, it means BBY or any other Clearing Participant BBY appoints.

**Client** refers to the person who has a Trading Account(s) with BBY.

**Close Out, Closed Out and Closing Out** in relation to a transaction means discharging or satisfying the obligations of the parties to the transaction, namely, the Client and BBY and this includes:

- (a) by delivering the amount of relevant Underlying Security required in accordance with the terms of the transaction; or
- (b) as a result of the matching up of the transaction with a transaction of the same kind under which the Client has assumed an offsetting opposite position.

**Commission** means the fee from time to time notified by BBY to the Client to be the commission payable by the Client to BBY in respect of each transaction for which BBY acts as an agent for the Client.

**Corporations Act** means the Corporations Act 2001 (Cth).

**ETO** means a transaction between the parties to settle a contract by delivering Underlying Securities or by paying in cash an amount dependent on the market price of the Underlying Securities or by reference to an index, on the terms set out in or determined by the rules of an Exchange.

**Exchange** means ASX, the Clearing House or any other exchange or market in which BBY participates from time to time, whether directly or through agents or other Market Participants.

**GST** means tax that is imposed as a goods and services tax under any of:

- (a) A New Tax System (Goods and Services Tax) Act 1999 (Cth);
- (b) any regulation made pursuant to the A New Tax System (Goods and Services Tax) Act 1999 (Cth).

**LEPO or Low exercise Price Option** is an option referred to by those names on contract specification set by ASX or one of its subsidiaries.

**Margin** means the balance of the amount of cash or other assets required to cover dealing through a Trading Account.

**Market Participant** means a person who either:

- (a) has been issued with an authority from the Reserve Bank of Australia to engage in transactions as dealer or agent when such authority is required for those transactions: or



- (b) holds an Australian financial services licence, authorising it to deal in transactions (including to arrange transactions, whether by online trading platforms or otherwise), or a duly authorised agent of such dealer.

**Open** means, at any time, a transaction which has not been Closed Out or settled prior to the time agreed for settlement.

**Price** means, in relation to a transaction, the price or rate quoted by BBY or by a Market Participant (as adjusted for any commission) and agreed to by the Client to express the value of the transaction or the Underlying Security the subject of that transaction.

**Premium Margin** means a component of total margin you are required to pay to BBY as Margin cover.

**Risk Margin** means a component of total margin you are required to pay to BBY as Margin cover.

**Statutory trust account** means a trust account required by law or exchange rules to be established and used for client moneys.

**Trading Account** means your account with BBY established under the Account Terms for a specific method of dealing, and is part of the Account. You may have several Trading Accounts.

**Underlying Security** means the reference security, other financial product or index underlying the option.

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