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options

US Exchange Traded Options (ETO)  
Product disclosure statement

**Issued by Australian Investment Exchange Limited,  
a participant of the ASX Group**

ABN 71 076 515 930 AFSL 241400

30 November 2018



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**The issuer**

Australian Investment Exchange Limited  
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(‘us’, ‘our’, ‘we’, ‘the Participant’)  
is a participant of the ASX Group.

Date of Issue: 7 March 2016.

Trading through Westpac Securities Limited ABN 71 076 515 930, AFSL 241400 is provided by the Participant. Under this arrangement, your trading in US Exchange Traded Options is offered by the Participant in association with Pershing LLC.

Changes to the PDS that are not considered to be materially adverse will be available from the Westpac Online Investing website, where you can either download an updated version or request us to mail one to you. Alternatively, you can call a Client Service Officer on 1300 757 319, 24 hours a day on US trading days.

If you have any questions about this PDS, please contact us on 1300 757 319.

**Important information.** This PDS has been prepared without taking account of your objectives, financial situation or needs. For that reason, before acting on the information in this PDS, you should consider its appropriateness to your objectives, financial situation and needs, and if necessary seek appropriate professional advice.

Trading Exchange Traded Options (Options) can involve considerable risks. For that reason, you should only trade Options if you understand the nature of the product (especially your rights and obligations) and the extent of the risks you are exposed to. Before trading, consider this PDS carefully together with your experience, investment objectives, financial resources, and other relevant issues.

**Products offered by this PDS.** This PDS covers exchange-traded equity and index Options traded on US exchanges.

It does not include Australian Options, debt Options, foreign currency Options or flexibly structured Options.

Exchange Traded equity Options are Options on quoted shares (or other securities) of a select group of stock exchange listed companies. Exchange Traded index Options are Options on a select group of stock exchange indexes. A complete list of companies and indexes over which Options are traded on US exchanges can be found on the Options Industry Council web site at [www.888options.com](http://www.888options.com)

**The Westpac Group have not provided any of the information contained in this PDS and were not involved in the preparation of this PDS. Westpac Group and their respective directors, officers, employees and advisors do not assume any responsibility for and accept no liability for the accuracy or completeness of the information contained in this PDS.**

# Part A

## Discover a new way to trade

Exchange Traded Options (or ETOs) are a versatile financial tool that you can use to:

- Protect your portfolio.
- Profit from market movements, even when the market is falling or flat.
- Earn extra income from your shares.
- Increase your returns through leverage.
- Diversify your portfolio.

Options derive their value from an underlying security, such as a share or an index. That makes them a flexible alternative to direct investing, giving experienced investors access to a range of strategies that might otherwise be unavailable. By trading Options in the US, you can access the world's largest and most dynamic derivatives market.

This Product Disclosure Statement (PDS) is designed to help you understand the US Options market and how you can trade Options in the US. It provides you with the information you need to help you decide whether this financial product will meet your needs and how it compares with other products you might be considering.

### What is an Option?

An equity Option is a contract between two parties that gives the buyer (taker) the right, but not the obligation, to buy or sell a bundle of shares at a specified price, on or before a predetermined date. The seller (writer) of the Option has an obligation to fulfil the requirements of the contract, if called upon by the buyer to do so. In exchange for the right to require fulfilment of the contract, the taker pays a premium to the writer.

A Call Option gives the taker the right to buy the underlying shares, while a Put Option gives the taker the right to sell them.

Index options work in a similar way. The taker of an index Option has the right to receive a cash payment if a sharemarket index reaches a specified level (expressed in points) on or before a predetermined date.

Option writers are required to supply shares or cash as collateral. A naked position is one that is not specifically hedged.

### The benefits of trading US Options

<b>Access the world's most dynamic market</b>	Gain exposure to the profit-making opportunities of the world's largest and most dynamic Options market.
<b>Profit from your view</b>	Profit when your view of future market movements proves correct. Options give you the potential to profit in rising, falling and flat markets, using a range of strategies with varying levels of risk.
<b>Earn income</b>	Write Call Options over shares you already own and receive the premium immediately. Remember, if the Option is exercised you may be forced to sell the shares at the exercise price.
<b>Manage risk</b>	Hedge (or protect) your portfolio by taking a Put Option to lock in the value of your shares.
<b>Diversify with leverage</b>	Diversify your portfolio and achieve a broader market exposure with a lower initial outlay than buying shares, potentially increasing your profits. Leverage can multiply your profits, but it can also multiply your losses if your view of the market proves incorrect.
<b>Gain time to decide</b>	Options lock in the price of a share. If you are the taker of a Call Option, you have time to decide whether you want to buy the shares. If you are the taker of a Put Option, you have time to decide whether you want to sell your shares.
<b>Trade in a regulated market</b>	Options are standardised and traded through a regulated clearing and settlement facility. Not only does that give you greater certainty, it also means that you can close out a position without having to deal with the other party in the original contract.

## The risks of trading US Options

Trading in Options is typically viewed as a risky investment, suitable for experienced investors who have a high tolerance for risk. Before you apply for an Options account, you are required to read the Risk Disclosure Statement on page 21 of this PDS.

### Significant risks

Here are the significant risks of trading US Options with us.

<b>Limited life</b>	Options have a fixed expiry date, after which they are worthless. Their value can fall rapidly as they approach expiry.
<b>Volatility</b>	Because Options are highly leveraged, they are highly sensitive to changes in the value of the underlying security.
<b>Leverage</b>	While leverage can multiply your profits when you invest successfully, it can also multiply your losses when your view of the market proves incorrect.
<b>Taking Options</b>	When you take an Option, the maximum amount you can lose is the premium you pay plus any transaction costs, such as brokerage.
<b>Writing Options</b>	When you write a covered Call Option, you run the risk of being required to sell your shares at less than the current market price if the share price rises above the exercise price of the Option. If the share price falls, you risk making a loss on your investment in the underlying shares.
<b>Difficulty closing positions</b>	When the market moves against you, you may find it difficult to close an open Option position if there is a significant change in its price over a short period of time.
<b>Adjustments</b>	If the underlying share for an ETO makes a pro-rata change to its ordinary share capital structure the exchange may make adjustments to the specifications of the ETO to preserve their total exercisable value. That means that the result of the number of contracts multiplied by the contract size and multiplied by the exercise price is kept as the same total exercise dollar amount before and after the underlying security's ex-date. Changes can be made to contract size, exercise price, expiry date, number of contracts, and even the underlying securities. As such changes can immediately affect important factors such as whether your ETO is 'in' or 'out' of the money, you will need to review all ETO adjustments to ensure that the position still falls within your investment strategy (See "Corporate Actions" on page 8 for further information).
<b>Discretionary powers</b>	The Options Clearing Corporation (OCC) and participating US exchanges have discretionary powers to ensure the maintenance of fair and orderly markets. They can suspend the operation of the market, lift suspensions, restrict exercise, terminate an Option position, substitute another underlying security (or securities), impose position and exercise limits and terminate contracts, which can all affect your position.
<b>Exchange rates</b>	Fluctuations in the value of the Australian dollar relative to the US dollar could affect the value of a US Option position when you take currency exchange into account. For example, if the Australian dollar rises in value while a position is open, it will reduce any returns from the position, possibly turning a profit into a loss.
<b>Legal Risk</b>	As Australia is a member state of the United Nations, we are obliged to implement United Nations Security Council sanctions. Consequently, we may be prohibited from dealing with certain persons or entities. This means that if it appears that you are, or act on behalf of, a proscribed person or entity, then we may be required to suspend, cancel or refuse you services or close or terminate any arrangement with you. We may also be required to freeze assets of yours. You could incur significant costs as a result of these actions.

### Practical risk management

There are some simple points to keep in mind when you are investing in Options:

- Options trading can be a valuable tool, but experienced investors know that speculative positions should form only part of a balanced investment strategy.
- When choosing your Options strategy, you need to take into account your potential losses as well as your potential profits, and consider carefully whether the level of risk suits you. For some strategies the maximum risk may be the loss of the premium (plus trading fees); for others it may be unlimited.
- It's especially important when trading Options to monitor your position carefully, and to take action as required. You can use the Global Markets website to keep track of your position, the market and the expiry dates of your Options.

# Trading US Options with us

We offer US Options trading in association with Pershing LLC (Pershing), our custodian for international accounts. Pershing is a subsidiary of the Bank of New York and a Clearing Member of the Options Clearing Corporation (OCC), with over 60 years experience in providing investment products and services.

You can access Pershing's trading facilities online or by telephoning the Global Markets trading desk on **1300 757 319**, 24 hours a day during US trading days.

## Why trade US Options with us?

<b>Six leading exchanges</b>	Trade Options on six US exchanges: New York Stock Exchange (NYSE) NASDAQ OMX (BX). Chicago Board Options Exchange (CBOE). International Securities Exchange (ISE). NYSE Arca (NYX). NASDAQ OMX (PHLX).
<b>Competitive brokerage (GST free)</b>	Trade for USD\$57.95 or 0.65% (whichever is greater) plus US\$1.04 a contract.
<b>Choose how you trade</b>	Place orders online or call the Global Markets trading desk, open 24 hours a day on US trading days.
<b>US markets at your fingertips</b>	Track Options series, view live prices and monitor your open positions online, with the Global Markets trading website.

## What strategies can I use?

What you can do	What you can't do
<ul style="list-style-type: none"> <li>You can trade stock Options and index Options.</li> <li>You can buy Calls and Puts to open.</li> <li>You can write covered Calls (that is, write Calls over shares you already own).</li> <li>You can use a combination of these trades to create more advanced strategies, such as long strangles and straddles.</li> </ul>	<ul style="list-style-type: none"> <li>You cannot trade debt Options, foreign currency Options or flexibly structured Options.</li> <li>You cannot write Puts to open.</li> <li>You cannot write uncovered (naked) Calls to open.</li> <li>You cannot use strategies involving written puts and uncovered calls, such as bull spreads and bear spreads.</li> </ul>

## Trading online

When you open a Global Markets trading account with us, you will be issued with a user ID and password which you can use to login to our Global Markets website at **westpac.netxselect.com**

Access to the site is free, including delayed stock quotes (delayed up to 20 minutes).

## Trading hours

The Global Markets Trading Desk is open 24 hours a day on US trading days.

US Options are traded in normal market hours, between 9.30 am and 4.00 pm (US Eastern Time).

For information about US holidays and trading days, visit **westpac.com.au/onlineinvesting** or call the **global markets trading desk** on **1300 757 319**.

## Settling US trades

All US Options trades are settled in US dollars through your Pershing Global Markets trading account. That means you need to make sure that there are sufficient funds in your Pershing account before placing an order. Call the Global Markets trading desk to have funds transferred from your Australian account to your USD Pershing account at least two days before they are required.

If you hold cash in your Pershing trading account, you'll receive credit interest on balances over US\$1,000 at Pershing's standard rate. Interest is calculated daily and paid monthly.

You can find the current Pershing credit interest rate on the Rateboard in the Quotes and News section of the Global Markets trading web site.

### How it works

Buy orders	Sell orders
Make sure there are sufficient funds in your Pershing account before placing an order	Funds are credited to your Pershing account on settlement
Funds are debited from your Pershing account on settlement	You can leave the funds in your Pershing account, or ask us to transfer them to your Australian account

## Know where you stand

You can view details of your US Options trades and open positions on the Global Markets trading website, 24 hours a day. When you place a US Options trade, Pershing will send you a printed Confirmation by post, as well as a monthly statement summarising your open positions.

# How Options work

## Equity Options and index Options

Equity Options are Option contracts over approved securities, while index Options are Option contracts over an approved index. Index Options enable you to take up a position based on your view on the market as a whole, or on the sector covered by a particular index.

### At a glance

	Equity Options	Index Options
<b>Underlying security</b>	Approved securities	Approved indices
<b>Premium</b>	Expressed in US dollars	Expressed in points
<b>Contract size</b>	Usually 100 shares	Exercise price of the Option multiplied by a dollar value, usually US\$100
<b>Settlement</b>	Deliverable	Cash settled
<b>Expiry date</b>	Saturday following the third Friday of the expiry month	Saturday following the third Friday of the expiry month
<b>Exercise price</b>	Expressed in US dollars	Expressed in points

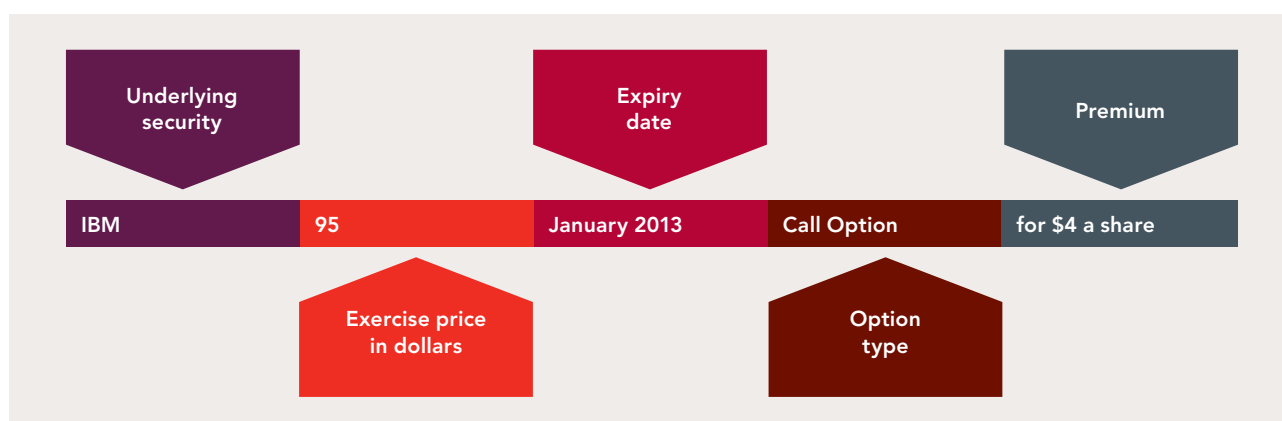
For a complete listing of securities for which Options are available, visit the Options Industry Council web site at [www.888options.com](http://www.888options.com)

### Premiums, exercise and settlement

Three of the most significant differences between equity and index Options are:

- The exercise price and premium of an equity Option are expressed in US dollars, while the exercise price and premium of an index Option are expressed in points. A multiplier is then applied to give a dollar figure. For example, if the multiplier is US\$100 per point and an index Option has a premium of 100 points, it would cost you a total of US\$10,000 to buy the Option (US\$100 x 100).
- When an equity Option is exercised, it is settled by delivery of the underlying security, while settlement of an index Option is generally by cash payment.
- While US equity Options can be exercised at any time up to and including the expiry date (US-style exercise), some US index Options can only be exercised on the expiry date (European-style exercise). See 'US style, European style and capped Options' on page 6 for more information.

### Key features of an Options contract





<b>Underlying security</b>	The underlying security is the stock or index which can be bought or sold if the Option is exercised.
<b>Contract size</b>	The contract size is typically 100 shares per contract over the underlying security. For index Options, the contract size is generally US\$100 per index point.
<b>Exercise price</b>	The exercise (or strike) price is the price at which you buy or sell the underlying securities on exercise of the Option. There is typically a range of exercise prices available for Options with the same expiry date, established by the Options market and listed by the Options Clearing Corporation (OCC).
<b>Expiry date</b>	The date on which all unexercised Options in a particular series expire. Expiry dates are fixed by the Options market. Equity and index options expire on the Saturday following the third Friday of the expiry month, and cease trading on the last trading day before the expiry date.
<b>Type of Option</b>	Options are either Put or Call Options. These are described below.
<b>Premium</b>	The price of the Option, determined by market forces, and quoted in US dollars per share. The Option premium depends mainly on how volatile the market thinks the underlying share price will be over the life of the Option. The more volatile the underlying share, the higher the Option premium.

## Put and Call Options

There are two kinds of Options: Puts and Calls. Each operates differently from the perspective of the taker and the writer.

	Writer	Taker
<b>Call Option</b>	Receives a premium from the taker for agreeing to <b>sell</b> the underlying security if exercised	Acquires the right, but not the obligation, to <b>buy</b> the underlying security at the exercise price on or before expiry
<b>Put Option</b>	Receives a premium from the taker for agreeing to <b>buy</b> the underlying security if exercised	Acquires the right, but not the obligation, to <b>sell</b> the underlying security at the exercise price on or before expiry

For examples of Call and Put Options in action, see 'Options trading strategies'.

## US style, European style and capped Options

There are three styles of exercise on US Options markets.

<b>US</b>	US style Options can be exercised at any time on or before the expiry date. All US equity Options and some index Options are US style.
<b>European</b>	European style Options can only be exercised on the expiry date and not before. Some US index Options are European style.
<b>Capped</b>	Capped Options are automatically exercised if the underlying security reaches a predetermined cap price at a specified time on a trading day during the life of the option (for example, at market close). The cap price is equal to the Option's exercise price plus a cap interval (for a Call Option) or minus a cap interval (for a Put Option). For example, a capped index Call Option might be exercised if the underlying index closed at or above the Option's exercise price plus its cap interval. Like European Options, capped Options can also be exercised on their expiry date.

## LEAPS®

Long-term Equity Anticipation Securities®, or LEAPS®, are long-term equity options with expiry dates up to two years and eight months into the future. LEAPS® give you the opportunity to hedge a US shareholding or benefit from fluctuations in a share price over the medium term.

LEAPS® are:

- Available as both Calls and Puts.
- Available over selected shares, with a limited number of exercise prices.
- US-style, so they can be exercised at any time before their expiry date.

You can find out more about LEAPS® on the Options Industry Council web site at [www.888options.com/basics/leaps](http://www.888options.com/basics/leaps)



## How Options are valued

The taker of an Option pays the writer a premium to enter into the Option contract. The writer keeps the premium, whether or not the Option contract is exercised.

The value of the premium is determined by market forces and established in the market between the taker and the writer at the time of a trade.

Premiums are generally quoted in US dollars per share for equity Options and in points for index Options. To calculate the total premium for an equity Option, multiply the Option price by the number of shares in the contract. For example, if an Option contract for 100 shares had a premium of \$2.50 per share, the total premium would be:

**\$2.50 per share x 100 shares = \$250 total premium**

### Intrinsic value and time value

Option prices are made up of two components, intrinsic value and time value:

**Option price = Intrinsic value + Time value**

Here's how they're defined:

<b>Intrinsic value</b>	The difference between the Option's exercise price and the market price of the underlying share. For example, if the Coca Cola Company is trading at US\$48 a share, and you have taken a Call Option giving you the right to buy Coca Cola shares for US\$47 a share, then your Option has an intrinsic value of US\$1.
<b>Time value</b>	The amount a trader is willing to pay for the possibility that the market will move in their favour before the expiry date. Time value falls as the Option approaches expiry.

### In the money or out of the money

Where the intrinsic value of the Option is positive, the Option is said to be **in the money**.

Options with no intrinsic value are **at the money** or **out of the money**.

If the exercise price...	is less than the share price	equals the share price	is more than the share price
A Call Option is...	In the money	At the money	Out of the money
A Put Option is...	Out of the money	At the money	In the money

### Understanding time value

The most important influence on time value is whether the Option is in, at, or out of the money. At-the-money Options have the greatest time value.

Other factors that affect time value include:

- The longer the time to expiry, the greater the relative time value.
- The more volatile the underlying security, the greater the time value.
- When interest rates rise, Call Option premiums will generally increase and Put Option premiums will decrease.
- If a dividend is payable during the life of the Option, the premium on a Call Option will be lower and the premium of a Put Option will be higher.
- During times of strong market demand for Options, premiums will be higher.

To learn more, download the OCC booklets from [www.optionseducation.org/content/oic/en/news/brochures\\_literature.html](http://www.optionseducation.org/content/oic/en/news/brochures_literature.html)

The Options Industry Council also provides an Options pricing calculator on its web site at [www.888optionsnet.com/calculator/main\\_calculator.asp](http://www.888optionsnet.com/calculator/main_calculator.asp)

## Options and their underlying shares

Because an Option is a derivative of an underlying security, it is important to understand the relationship between the two. In the case of equity Options, the underlying security refers to the listed shares of an approved company. An Option's price is affected not only by the volatility and market performance of the shares, but also by dividends and corporate events.

### Dividends and entitlements

You are not entitled to dividends or other entitlements paid by the issuer of shares over which you hold Options, unless you exercise the Options to become the holder of the shares before the ex-dividend or ex-entitlement date.

### Corporate actions

When a listed security announces a corporate event that results in some form of capital reconstruction, adjustments may be made to one or more of the contract specifications of any Options affected. Decisions about adjustments are made by an adjustment panel consisting of representatives of the OCC and the Options markets on which an Option series is traded. The aim is to maintain, as far as possible, the value of Option positions held by takers and writers.

For example, if a company announced a two-for-one stock split, the adjustment panel might adjust a \$60 Call Option contract over the company's shares by converting it to two \$30 Call Option contracts.

### Examples of corporate actions that could cause an adjustment

These actions could cause an adjustment	These actions will generally not cause an adjustment
<ul style="list-style-type: none"><li>• Special stock dividends or distributions.</li><li>• Stock splits and reverse stock splits.</li><li>• Rights offerings.</li><li>• Reorganisations and recapitalisations.</li><li>• Mergers and consolidations.</li><li>• Dissolutions and liquidations.</li></ul>	<ul style="list-style-type: none"><li>• Ordinary stock dividends or distributions.</li><li>• Ordinary cash dividends or distributions.</li><li>• Tender offers or exchange offers.</li><li>• The issue of poison pill rights – redeemable rights, not immediately exercisable, designed to discourage a takeover.</li><li>• Changes in capital structure which do not convert publicly held securities into another security, cash or other property.</li></ul>

For more information, refer to the OCC By-Laws, available from the OCC web site at [www.optionsclearing.com/about/publications/bylaws.jsp](http://www.optionsclearing.com/about/publications/bylaws.jsp)

### How an adjustment can affect your position

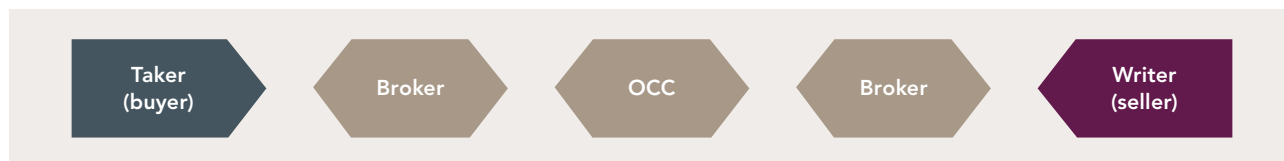
Features of an Options series which can be adjusted include:

- The number of contracts.
- The unit of trading.
- The exercise price.
- The underlying security.

The OCC publishes contract adjustment notices on its web site at [www.theocc.com/webapps/infomemos](http://www.theocc.com/webapps/infomemos)

# Option trading, step by step

## Participants



The US Options market is provided by the Options Clearing Corporation (OCC) and its participant exchanges. The OCC is regulated by the US Securities Exchange Commission (SEC) and is responsible for:

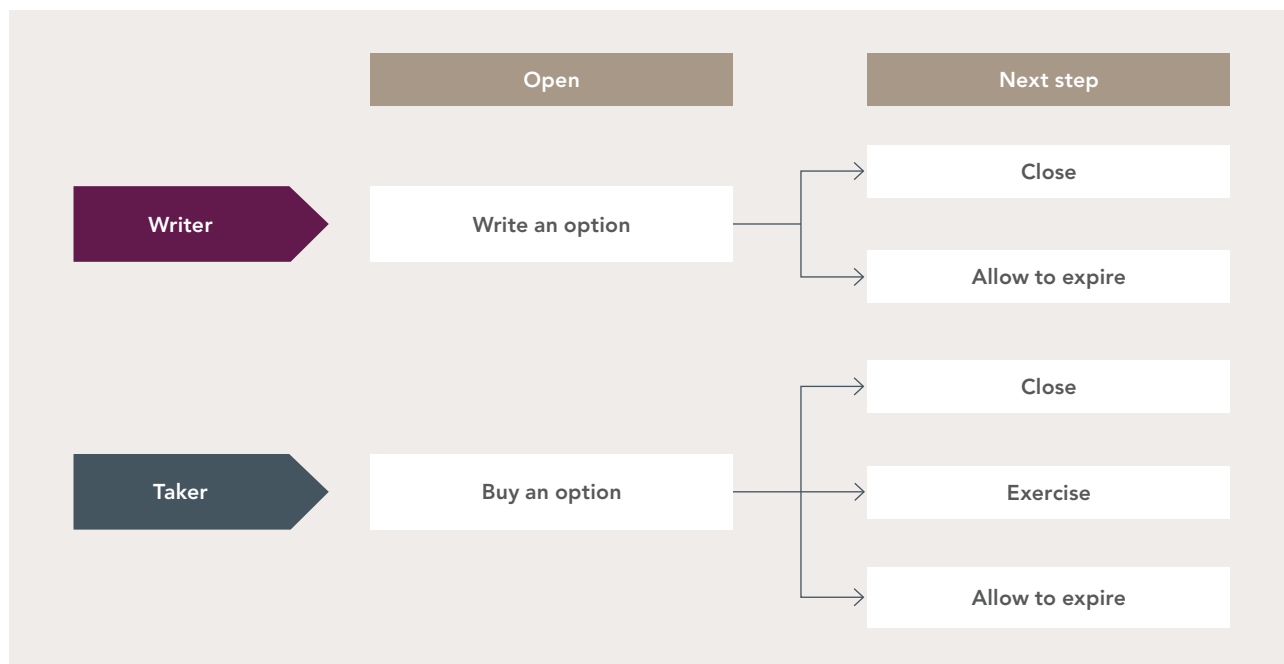
- Issuing, guaranteeing and clearing all Options traded on participating exchanges.
- Overseeing the day-to-day operations of the market.
- Setting standardised Option components and minimum margin requirements.

When you trade options through us, we provide US options trading in association with our international custodian, Pershing, a clearing member of the OCC. In conjunction with Pershing and the Participant, Westpac Securities can offer you a full range of trading, clearing, settlement and foreign exchange services.

## Market makers

Market makers provide quotes in particular Option series to ensure liquidity in the market. This allows traders to trade in and out of a position more easily. Market makers compete against each other and are assigned stocks in which they must meet certain obligations, such as quoting buy and sell prices or responding to requests from other market participants for prices.

## The trading process



## Opening a position

When you first buy or write an Option contract, you are opening a position. You can open a position by calling us or placing your order online. Every month you have an open position you will receive a detailed statement. You can also view details of your open positions online using the Global Markets trading website at [westpac.netxselect.com](http://westpac.netxselect.com)

## The next step

Once you've opened a position, your next step depends on whether you are a taker or a writer of the Option, and whether your Option is in, at, or out of the money.

The taker (buyer) can:	The writer (seller) can:
<ul style="list-style-type: none"> <li>• Exercise the Option.</li> <li>• Allow it to expire.</li> <li>• Close out the position by selling an Option in the same series.</li> </ul>	<ul style="list-style-type: none"> <li>• Allow the Option to expire, risking assignment.</li> <li>• Close out the position by buying an Option in the same series, provided it has not already been exercised against.</li> </ul>

## Closing a position

An open position is closed when an order is placed that is equal and opposite in effect to the original order. You might choose to close out a position to:

- Take a profit.
- Limit a loss.
- Remove the risk of unwanted early exercise.

## Exercising Options

If you wish to exercise the Option contract, you need to notify us. With Pershing we will then notify the OCC who will determine which writer will be allocated to the trade (assigned). The writer will be required to deliver on the contract, either by delivering the underlying security for an equity Option, or by cash settlement if you are exercising an index Option.

**We will automatically exercise any Option position that is in the money on the date of expiry by more than US5c (for equity options) or one point (for index options).**

Even though an Option is in the money, you could still make a loss after taking fees into account. If you do not want to exercise an in-the-money Option, it is your responsibility to notify us before close of trading on the Option's expiry date.

## Settlement

When you open or close a position, payment occurs on the day after the transaction is executed (T+1).

US laws state that you must settle in full on the settlement date. You are also not allowed to offset purchases with sale proceeds that are due to be settled on the same date.

We require that you settle all cash positions which arise from premiums and other cash transactions within 24 hours of the time the trade occurred.

On exercise, payment for and delivery of the underlying securities occurs on the third business day after the date of exercise (T+3).

For cash-settled index Options, a cash settlement is paid to exercising takers on the day after the expiry date.

## A Call Option in action

**The situation** > IBM is trading at \$95.

	Writer	Taker
<b>Market view</b>	Thinks IBM will fall	Thinks IBM will rise
<b>Action</b>	Writes an IBM 95 Call and receives \$4 per share	Buys an IBM 95 Call for \$4 per share
<b>If IBM's price rises to \$100</b>	Can allow Option to expire, running the risk of being assigned Can buy an IBM 95 Call to close the position	Can exercise Option and buy IBM for \$95 Can sell an IBM 95 Call to close the position, receiving a premium
<b>If IBM's price falls to \$90</b>	Keeps premium as profit	Can allow Option to expire Can sell an IBM 95 Call to close the position, recouping some of the premium

## A Put Option in action

The situation > IBM is trading at \$95.

	Writer	Taker
<b>Market view</b>	Thinks IBM will rise	Thinks IBM will fall
<b>Action</b>	Writes an IBM 95 Put and receives \$4 per share	Buys an IBM 95 Put for \$4 per share
<b>If IBM's price falls to \$90</b>	Can allow Option to expire, running the risk of being assigned Can buy an IBM 95 Put to close the position	Can exercise Option and sell IBM for \$95 Can sell an IBM 95 Put to close the position, receiving a premium
<b>If IBM's price rises to \$100</b>	Keeps premium as profit	Can allow Option to expire Can sell an IBM 95 Put to close the position, recouping some of the premium

# Options trading strategies

When you trade US Options with us, you can use a range of strategies, some simple and some more complex.

But even the most complicated strategies will be constructed from these three building blocks:

Bullish strategy	Long Call
Bearish strategy	Long Put
Income and limited protection strategy	Covered Call

Remember that short Puts and uncovered short Calls are not available.

## The long Call

You can use a long Call when you expect the price of the underlying stock to rise. It gives you leveraged exposure to the expected price rise, and also locks in a maximum purchase price for the underlying share during the life of the Option.

You buy the Options and, if the share price rises as you expect, you decide whether to close out at a profit or maintain the position in the hope of further price rises – bearing in mind that, the closer the expiry date, the greater the effect of time decay. If the share price doesn't rise, you may decide to close the position by selling the Option, recovering some of your premium.

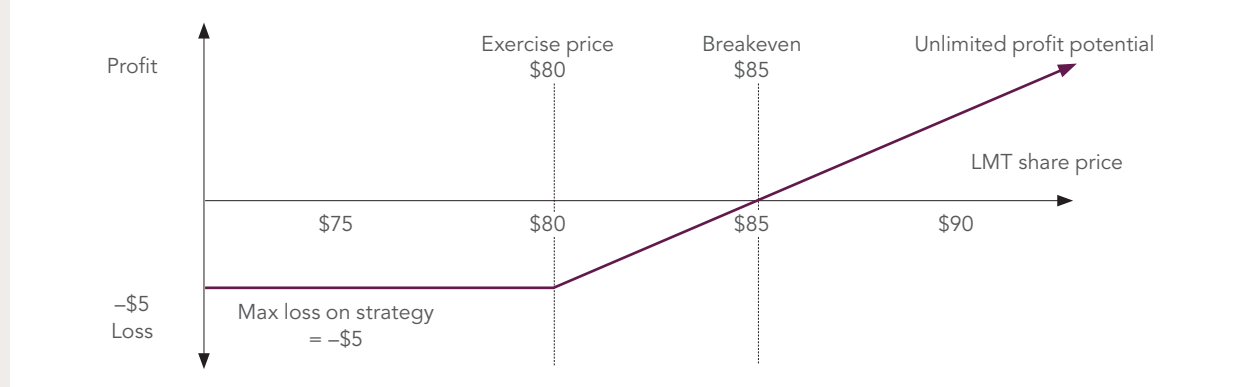
If the Option is in the money at expiry, you can either choose to exercise it or to sell it, depending on whether you wish to own the underlying shares. Note that we will automatically exercise the Option if it is in the money by US5c (for equity Options) or 1 point (for index Options) on expiry, unless you advise us not to do so. See 'Exercising Options' on page 10 for more information.

You will break even if the share price at expiry is equal to the exercise price plus the premium and trading fees. Your maximum profit at expiry of the Option is unlimited, while your maximum loss is limited to the premium paid, plus trading fees.

## Case Study

1. The strategy	2. How he did it	3. The result
Justin formed the view that increased security spending by the US government would benefit defence companies such as Lockheed Martin (NYSE: LMT). So he decided to buy an LMT Call.	When LMT was trading for US\$82, Justin bought an LMT 80 Call with an expiry date two months in the future. He paid a premium of US\$5 a share, making a total cost of US\$500.  Justin would break even (before trading fees) if LMT rose to US\$85 (the US\$5 premium, plus the exercise price of US\$80). If it rose above US\$85 he would profit.	At expiry, the price of LMT had risen to US\$90. Justin's Call was now worth US\$10 per share or a total of US\$1,000.  That gave him a profit of US\$500 (US\$1,000 less the US\$500 premium) before trading fees.

### Pay-off diagram per share



This is a hypothetical example for illustrative purposes only and does not represent any particular individual.

Neither Westpac nor The Participant specifically recommend the stock used in this example.

Past performance is not indicative of future performance.

## The long Put

The long Put is a strategy you can use when you expect the underlying shares to fall.

Buying a Put over shares that fall in value gives you leveraged exposure to the price fall, and is one of only a few ways to profit from a falling share price. You can also use a long Put to protect your holding in the underlying shares.

The maximum you can lose on a long Put is the premium that you paid for the Option, plus trading fees, which will happen if the share price at expiry is above the exercise price. You will break even if the share price at expiry is equal to the exercise price of the Option less the premium and trading fees. If the share price falls beyond this point you will profit, with your profits limited only by the share price falling to zero.

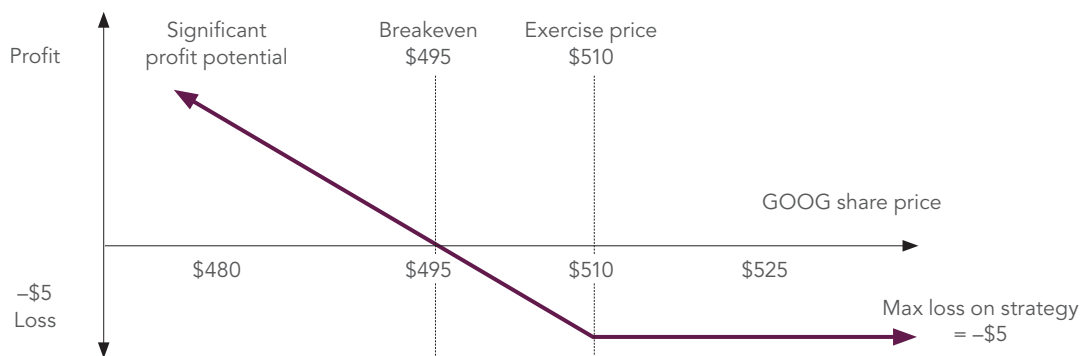
If the Option is in the money at expiry, you can either choose to exercise it or to sell it, depending on whether you wish to own the underlying shares. (We will automatically exercise the Option if it is in the money by US5c or 1 point on expiry; see 'Exercising Options' on page 10.)

If you already own the underlying shares, you can use a long Put for protection by locking in a sale price.

### Case Study

1. The strategy	2. How he did it	3. The result
With Google (NASDAQ: GOOG) trading at US\$507, Karen decided that the stock was due for a correction. So she decided to buy a long Put.	Karen bought a GOOG 510 Put for US\$15 a share. For Karen to break even (before trading fees), the share price needed to fall below US\$495 (the exercise price less the cost of the premium).	<p>If Google's share price had risen above \$510 by the expiry date of the Option, Karen's maximum loss would have been the US\$15 per share premium, a total of US\$1,500.</p> <p>In fact, GOOG's share price at expiry was US\$480, giving Karen a profit of US\$1,500 (\$3,000 less the \$1,500 premium) before trading fees.</p>

#### Pay-off diagram per share



This is a hypothetical example for illustrative purposes only and does not represent any particular individual.

Neither Westpac nor The Participant specifically recommend the stock used in this example. Past performance is not indicative of future performance.



## The covered Call

A covered Call is a Call Option written over stock you already own. Covered Calls can help you generate income from shares when the price is expected to remain flat.

Your maximum profit is the premium, and will be achieved if the share price at expiry is at or above the exercise price. Because you already hold the stock, your potential loss is unlimited if the share price falls. In other words, a fall in the share price will result in unrealised losses, but the premium can help you recoup some of that loss.

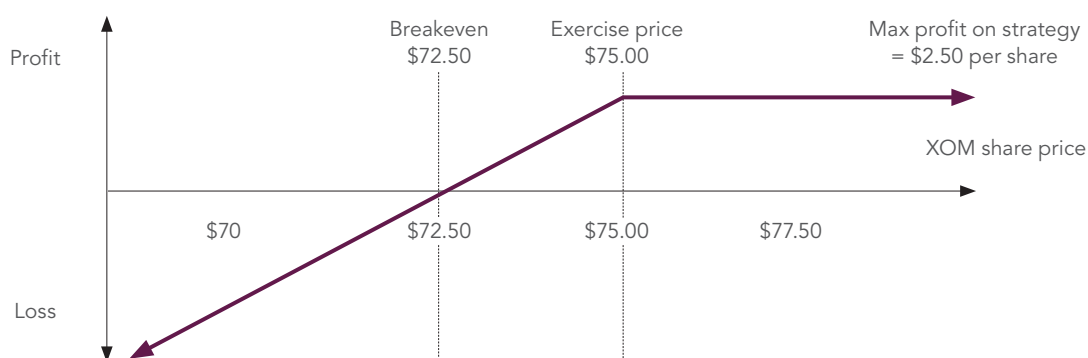
It's important to realise that, in the case of a strong price rise, you will not be able to profit from the increased value of the shares because you will only receive the premium and may have to sell your shares at the exercise price. That means you need to choose your exercise price carefully, and be ready to close your position to avoid being assigned.

When you write a covered Call, you will need to lodge the underlying shares with Pershing as collateral for your position while it remains open. Your shares will not be available for trading until your position is closed.

### Case Study

1. The strategy	2. How he did it	3. The result
<p>Don owned 200 shares in Exxon Mobil (NYSE: XOM). While the stock had experienced strong growth in the recent past, a dip in oil prices was now putting downward pressure on the share price.</p> <p>So Don decided to write a covered call over his shares.</p>	<p>Don wrote two XOM 75 Calls at a time when XOM was trading for US\$75 a share.</p> <p>As a result, he earned a premium of US\$2.50 a share, or a total of US\$500.</p>	<p>XOM continued to trade sideways over next few months, falling to US\$74 when Don's Options expired.</p> <p>As a result, Don earned US\$500 (before trading fees) without being assigned, more than offsetting the unrealised loss on his shares.</p>

#### Pay-off diagram per share



This is a hypothetical example for illustrative purposes only and does not represent any particular individual.

Neither Westpac nor The Participant specifically recommend the stock used in this example. Past performance is not indicative of future performance.

# Part B

## What will it cost?

As well as the Option premium, trading US Options involves costs including brokerage, custody fees and transfer fees.

Fees (GST free)	Amount
Brokerage (online and over the phone)	USD\$57.95 or 0.65% (whichever is greater) plus additional brokerage of USD\$1.04 per contract
Custody fee for inactive accounts <sup>1</sup>	USD\$63.50 per year
Outgoing account transfers to either another custodian or direct registration to client (US securities only)	USD\$90.00 per transfer
Foreign Securities Custody Fee	USD\$2.00 per non-US holding of security per month, per account
Posted trade confirmation or statement fee	USD\$2.00 per trade confirmation or statement

Other fees <sup>^</sup> (GST free)	Amount
Miscellaneous exchange and regulatory fees	At cost
Incoming account transfers (U.S. and non US securities)	At cost
Outgoing account transfers (non U.S. securities)	At cost
Transfer in/out of DRS eligible securities	At cost
Outgoing wire transfer of funds from Pershing account to any bank account	At cost

<sup>^</sup> Fees are charged as per Pershing cost.

1. Custody fees are assessed to accounts defined as inactive; that is, accounts holding a security position for a calendar year (1 January to 31 December) without generating a trade, or margin interest of USD\$100 or more. Dividend reinvestment activity is not considered as a trade.

## Debit Interest

### Interest on overdue balances:

Interest will be charged on overdue/unpaid accounts. This will be charged directly to your account with Pershing at the Pershing Base Lending Rate (PBLR) plus 150 basis points.

Notes: Australian Investment Exchange Limited reserves the right to pass through to your account any additional charges, or changes to existing charges, that we may incur as a result of changes in industry practices or through the course of normal business operations. You will be notified of any of the aforementioned changes prior to their implementation.

Global Markets trading is provided by Pershing LLC, ARBN: 108 110 149, AFSL no 271837, member FINRA, NYSE, SIPC through Australian Investment Exchange Limited ("The Participant", "We", "Us" or "Our") ABN 71 076 515 930 AFSL 241400, a Participant of the ASX Group.

## Other things you need to know

### Where to find out more

This PDS contains a summary of the risks and returns from trading in US Options.

You can find further, detailed information on US Options and Options trading on the OCC and Options Industry Council web sites:

OCC web site	<a href="http://www.optionsclearing.com">www.optionsclearing.com</a>
Options Industry Council	<a href="http://www.888options.com">www.888options.com</a>

You can also find out more about the exchanges on which US Options are traded by visiting the exchange web sites:

<b>New York Stock Exchange</b>	<a href="https://www.nyse.com/products/options">https://www.nyse.com/products/options</a>
<b>NASDAQ OMX BX</b>	<a href="http://www.nasdaqtrader.com/Micro.aspx?id=BXOptions">www.nasdaqtrader.com/Micro.aspx?id=BXOptions</a>
<b>Chicago Board Options Exchange</b>	<a href="http://www.cboe.com">www.cboe.com</a>
<b>International Securities Exchange</b>	<a href="http://www.iseoptions.com">www.iseoptions.com</a>
<b>NYSE Arca</b>	<a href="https://www.nyse.com/markets/arca-options">https://www.nyse.com/markets/arca-options</a>
<b>NASDAQ OMX PHLX</b>	<a href="http://www.nasdaqtrader.com/Micro.aspx?id=phlx">www.nasdaqtrader.com/Micro.aspx?id=phlx</a>

Before trading US Options with us, we recommend you read the booklet Characteristics and Risks of Standardized Options, which can be found along with other booklets at [www.optionseducation.org/content/oic/en/news/brochures\\_literature.html](http://www.optionseducation.org/content/oic/en/news/brochures_literature.html)

## Tax treatment

The tax implications of trading Options can vary widely, depending on your individual circumstances and the trading strategies you adopt. Neither Westpac nor the Participant provide tax advice.

For further information about the tax treatment of US Options, we recommend you consult your accountant or taxation adviser.

## Consent to be named

**Westpac Banking Corporation and Westpac Securities Limited have consented to the references to “Westpac” and “Westpac Securities” included in this PDS. None of Westpac Banking Corporation, Westpac Securities Limited nor any members of the Westpac group, nor any of their respective directors, officers, employees or advisers assumes any responsibility for the accuracy or completeness of this PDS.**

**Pershing LLC has consented to be named in this PDS. Neither Pershing LLC nor its directors, officers, employees or advisers assumes any responsibility for the accuracy or completeness of this PDS.**

## Resolving disputes

If you have a complaint or problem with US Exchange Traded Options, we'd like to hear from you. To help us deal with the issue quickly and effectively, we suggest you start by:

- Gathering any supporting documents concerning your complaint, paying particular attention to the dates and times when the problem occurred.
- Noting the names of any staff who were involved.
- Clarifying what you would like us to do to resolve the issue.

Next, contact the **Global Markets trading desk** on **1300 757 319** and explain the problem. A quick call is all that's required to resolve most issues.

If at this stage your complaint hasn't been resolved to your satisfaction, please contact our Client Relations team:

**Phone** 1300 757 319  
**Email** [globalmarkets@westpac.com.au](mailto:globalmarkets@westpac.com.au)  
**Mail** Reply Paid 85157  
Australia Square  
NSW 1214

You can view our internal dispute resolution and contact details in our Financial Services Guides.

While most issues are resolved quickly, under the rules governing complaints handling we have up to 45 days to deal with any complaint you may have. You'll be informed of our progress if your complaint takes longer than 45 days to resolve.

## External dispute resolution

If your dispute is not satisfactorily resolved after 45 days, you can take the matter to the Australian Financial Complaints Authority (AFCA), a body recognised by the Australian Securities and Investments Commission. For further information please contact AFCA at:

**Phone** 1800 931 678 (free call)  
**Email** [info@afca.org.au](mailto:info@afca.org.au)  
**Internet** [www.afca.org.au](http://www.afca.org.au)  
**Mail** GPO Box 3  
Melbourne VIC 3001

# How to invest in US Options with us

## Step 1

### Open an International Share Trading Account

If you do not already have a Global Markets account, you must open an account before you can become a US Options client. Download an International Trading brochure and application form from [westpac.com.au/onlineinvesting](http://westpac.com.au/onlineinvesting)

## Step 2

### Consider the risks and benefits

Carefully consider all the information in this PDS, including the Terms and Conditions on page 18 and the Risk Disclosure Statement on page 21.

## Step 3

### Apply

Complete the application form enclosed with this brochure.

# Terms and conditions

## Australian Investment Exchange Ltd (The Participant) ABN 71 076 515

Please keep these terms and conditions for future reference. The terms and conditions set out here apply to trading in US Options. The Option Agreement set out in the Pershing LLC Option Agreement and Approval Form (see the Application Form) also applies to trading in US Options.

### Definitions

**"Agent"** any broker or custodian appointed by us including international brokers, international custodians, international clearers and banks;

**"International Securities"** means securities listed on a foreign stock exchange and includes, but is not limited to stocks, shares, bonds, debentures or other debt securities, notes, rights, units, options and any other instruments representing rights to receive, purchase or subscribe for same;

**"Portfolio"** means all International Securities held from time to time by an Agent or by us on your behalf under these Terms and Conditions;

**"Proscribed Person"** means a person who appears to us either (a) to be a proscribed person or entity under the Charter of the United Nations Act 1945 (Cth); (b) to be in breach of the laws of any jurisdiction relating to money laundering or counter-terrorism; (c) to appear in a list of persons with whom dealings are proscribed by the government or a regulatory authority of any jurisdiction; or (d) act on behalf, or for the benefit of, a person listed in subclauses (a) – (c).

**"Terms and Conditions"** means these terms and conditions, setting out the agreement between you and us;

**"we, our and us"** means Australian Investment Exchange (The Participant);

**"you or your"** means the person or persons named in the application to deal in International Securities and where the context requires or permits all of them;

**"Westpac"** means Westpac Banking Corporation ABN 33 007 457 141;

**"Westpac Group"** means Westpac and its related bodies corporate.

### Customer information and privacy

#### What information we collect

We collect information about you (such as your name, address and contact details), and information about your interactions with us, such as activity on your account. We may also collect publicly available information about you.

#### Why we collect your information and what we use it for

We collect your information because we are required to identify you in accordance with the *Anti-Money Laundering and Counter-Terrorism Financing Act 2006* and in order to comply with taxation laws, such as the *Taxation Administration Act 1953* and the *Income Tax Assessment Act 1936*. We also collect it to administer our customer relationships and internal processes including risk management and pricing, under our arrangements with government agencies, and to identify and tell you about products and services that you request from members of the Westpac Group. If you don't want to receive marketing information you can opt out by calling Westpac Securities Limited on 13 13 31.

If you give us your electronic and telephone details, you agree we or members of the Westpac Group may use this information to communicate with you electronically, by phone or SMS, including providing updates and reminders.

You must give us accurate and complete information; otherwise we may not be able to provide you with the products and services that you require. If you change your personal details (e.g. address, name or email address) you must tell us straight away.

#### Who we may exchange your information with

We may exchange your information with our related entities and certain third parties, for example:

- your representatives, advisers, brokers and agents, and their service providers;
- our service providers and those who refer business to us;
- members of the Westpac Group;
- market operators, operators of clearing and settlements facilities, share and other registries, regulatory and government authorities;
- platform providers, issuers of financial products, other financial institutions, and other bodies (for example, if you do not perform your obligations under a share trade).

Sometimes it may be necessary to send your information overseas – for example, where we outsource functions overseas, where we need to complete a transaction on your behalf or where this is required by laws and regulations in Australia or in another country. We send information to the US for the purpose of managing your global markets trading account (if applicable). See our privacy policy for more information.

Members of the Westpac Group may disclose your personal information to an entity which is located outside Australia. Details of the countries where the overseas recipients are likely to be located are in Westpac's privacy policy (available at [westpac.com.au](http://westpac.com.au) or by calling 132 032).

As a provider of financial services, members of the Westpac Group have obligations to disclose some personal information to government agencies and regulators in Australia, and in some cases offshore. We are not able to ensure that foreign government agencies or regulators will comply with Australian privacy laws, although they may have their own privacy laws. By using this product or service, you consent to these disclosures.

#### Privacy policies

Our privacy policy and Westpac's privacy policy are available on the website and should be read in conjunction with the above. Our privacy policy is available at [Westpac.com.au/onlineinvesting](http://Westpac.com.au/onlineinvesting), and Westpac's privacy policy is available at [westpac.com.au](http://westpac.com.au) or by calling 132 032. Both policies contain further details about our information collection and handling practices, including information about:

- other ways and reasons your information may be collected, used or exchanged;
- how you may access and seek correction of that information; and
- complaint handling procedures and how to make a complaint about a breach of your privacy rights.

We encourage you to check the abovementioned websites regularly for any updates to these policies.

### How to contact us

For privacy related enquiries, please contact us on **13 13 31**. We aim to resolve your query or complaint at your first point of contact with us, however if you have tried to resolve your complaint and are not satisfied with the outcome, you may contact our Customer Relations team directly by calling **1800 805 605**, or write to **Customer Relations, Reply Paid 41, Sydney NSW 2001**.

## Global Markets trading terms and conditions

1. These Global Markets Trading Terms and Conditions apply to all dealings between you and us and any Agent of ours, when you apply for a Global Markets Trading account with us. They apply in addition to the Online Investing Terms and Conditions although these Terms and Conditions apply to the extent of any inconsistency. A reference in the Online Investing Terms and Conditions to "securities" or "shares" includes "International Securities".
2. You agree to appoint us to execute, arrange, or arrange facilities for execution of trades in International Securities and to arrange associated settlement and custody services.
3. You agree to provide us with an electronic address and authorise us to send a confirmation for any dealing, or any notice to you, electronically to the latest such address advised to us.
4. Any dealings between us and our Agent, or between you and our Agent, may also be subject to the terms and conditions or trading rules of our Agent.
5. You agree that when dealing in International Securities under these Terms and Conditions you do not have the right to obtain physical delivery of those securities where those securities are registered in the name of our appointed Agent on your behalf. You also agree that our Agent may exercise any rights that we or any other Agent may have under these Terms and Conditions.
6. We or our Agent may deposit in one or more cash accounts all moneys received on your behalf relating to the Portfolio. A cash account may be held in our name or that of the Agent or you, as we or our Agent considers to be advisable. Any such account will be denominated in the currency of the country in which you wish to deal and may be on the terms and conditions imposed by any Agent of ours who holds a cash account on your behalf. You agree to pay us or our Agent all fees and charges and indemnify us for any liabilities arising from the operation of cash accounts by us or our Agent on your behalf.
7. Orders to buy or sell International Securities:
  - (a) may only be valid for terms that we determine from time to time and within the maximum terms allowed on the relevant stock exchange;
  - (b) may be rejected or refused, for any reason, however without limiting the circumstances in which we may reject or refuse to arrange for execution of an order, these reasons may include:
    - (i) there are insufficient cleared funds deposited in your account;
    - (ii) application of the relevant market rules requires it; and

- (iii) where securities required for settlement of a trade are not available.

You may give us an order to buy or sell an International Security or otherwise deal with an International Security in one of the following ways (or in any other way we agree):

- (a) through our website; or
- (b) by calling us.

You must also provide us with any information that we reasonably request in order to accept your orders.

You are responsible for ensuring the accuracy and completeness of your order.

### 8. Delays in processing

You acknowledge that we make all reasonable attempts to enter your instructions to buy or sell securities as quickly as possible and will not be liable for any claims for lost opportunity should delays be experienced

- a. You acknowledge that we will make all reasonable attempts to:
  - (i) effect any instruction to cancel or amend orders as quickly as possible; and
  - (ii) inform you when orders are filled prior to an amendment or cancellation instruction being cancelled.

If an order is filled prior to a cancellation or amendment instruction being effected you will accept the transaction(s) on the original terms.

- b. If you have concerns in relation to your order, you will make all reasonable attempts to verify whether the order has been received, approved and effected prior to taking any further action. You agree to issue specific cancellation or amendment instructions with respect to an existing order and not to attempt to effect such changes by placing a second or duplicate order. You will be solely responsible and liable for any duplicate orders that you place.
      - c. If, acting reasonably, we consider there is a dispute between us about an order or instruction you have given us, for example, the number of shares you have asked us to buy, or the bid price for shares, we may take, without prior notice to you, any action which in our reasonable opinion we consider necessary to close any open position the subject of the dispute, for example, by selling shares.

9. Unless we otherwise state or specify all confirmations for sale or purchase of International Securities will be for your account in the currency of the country in which you have chosen to deal. You agree that you will bear the foreign exchange risks of trading in International Securities including, but not limited to, the risks of cash held, of dividends or other income payments received, of expenses or other liabilities incurred and of exchange controls or other laws that may prohibit or impose costs on transfers of International Securities or cash or accounts held in countries outside Australia or denominated in currencies other than Australian dollars.
10. Any dividend, interest or any other cash payment to which you are entitled in relation to any International Securities held on your behalf, may be credited to your account less withholding tax and any other applicable charges.

11. Unless you and we otherwise agree, you acknowledge that any foreign exchange dealing facilitated by us may be conducted at current rates of dealing for such transactions or with any properly licensed office or subsidiary of the Commonwealth Bank of Australia acting as principal. You agree that we will not be liable for any loss suffered by you as a result of the conversion of an amount to or from Australian dollars or as a result of the timing of the conversion.
12. Foreign exchange is offered only for the purpose of settlement of trades. A variable foreign exchange spread charge may be incurred for providing this option, not exceeding 1% away from the underlying wholesale spread (bid/offer) as provided by either the Commonwealth Bank of Australia or its Agent Pershing LLC.
13. You and we will be bound by the local laws, rules, customs, usages and practices, including as to taxation, of the country in which any dealing is either wholly or partly transacted under these Terms and Conditions.
14. If you request variation to or cancellation of an open order recorded by us, the order cannot be varied or cancelled until your request has been notified by us or by you by way of internet trading systems, or as our Agent prescribes, to our Agent and confirmation of the variation or cancellation from our Agent has been received by us or you.
15. We will use our reasonable endeavours to execute or arrange execution of your instructions. You agree we will not be responsible for delays or errors in the transmission or execution of your orders, and you acknowledge that international time differences and timing of public holidays or other similar observances may lead to delays in receipt of instructions and execution by our Agents. You also agree that neither we nor our employees, contractors or Agents are responsible for any loss whether direct or consequential, and whether in connection with a cash account or otherwise, that you suffer or incur in connection with your business dealings with us or our Agents.
16. We agree to exercise reasonable care in selecting our Agents however you agree we will not be liable for any losses sustained or incurred by you by reason of any act, omission, fraud or negligence of any of our Agents.
  - (a) While we will use reasonable care in selecting our International Custodian, we are not liable for any losses incurred by you by reason of any act, omission, fraud or negligence of the International Custodian or in relation to the holding of or dealing with your International Securities by the International Custodian.
  - (b) Notwithstanding sub-clause 16(a), we will be liable to you if you suffer loss in respect of your International Securities due to a failure by the International Custodian to comply with its duties under these Terms and Conditions and any other agreement relating to the holding of your International Securities or to observe reasonable standards generally applied by providers of custodial or depository services for holding property such as International Securities.
  - (c) Sub-clause 16(b) will not apply to the extent that the loss arises from the insolvency of the International Custodian and we have taken reasonable care in engaging and monitoring compliance by that International Custodian.
17. You agree that we will not be held accountable for any errors in communication, provision of data and the operation of a trading floor or stock exchange or any depository or clearing house and that in the event that information communicated to us from other parties is found to be inaccurate, misleading or false, we will not be held liable for any loss or liability that ensues.
18. We and our Agents may use price quoting services from time to time in connection with the provision of the services referred to in clause 2 of these Terms and Conditions. You agree we will not be liable to you for any loss resulting to you caused by any inaccuracy in the information or advice supplied by price quoting services. You agree that we may limit your access to price quoting services or may charge you fees based on your usage of these services.
19. You acknowledge that we do not provide any personal advice in relation to the services offered to you.
20. We are not obliged to notify you of any proposed corporate actions (including, but not limited to, takeovers, bonus issues, stock splits, consolidations, rights issues, or buybacks) in relation to securities held by you and cannot be held liable for any failure for you to act on a corporate action.
 

If you desire to take action with regard to a corporate action you must provide us with written or verbal instructions as required by us with regard to the action you desire to take, within the specified time, and if you do not do so we will not be liable for any failure to take action in relation to proposed corporate actions.
21. We are not obliged to provide you with any notice of a general meeting of an issuer of International Securities and you are not entitled to exercise voting rights in relation to any International Securities or to attend any such general meeting.
22. We are under no obligation to provide you with copies of annual reports or company announcements of an issuer of International Securities. You may request that we obtain copies of particular documents and if we are able to do so such documents will be provided upon payment of our specified fee.
23. You agree to pay us by way of deduction from a cash account held on your behalf commission, fees and charges in connection with the services provided under these Terms and Conditions, as varied by us on seven (7) days notice, at the rates and currency notified by us either in writing, by email, or posted on our website from time to time together with:
  - (a) any fees, taxes or other charges levied by a third party or in connection with provision of the services; and
  - (b) interest on any unpaid amounts at the rate determined by us from time to time until the date of payment.
24. You agree that if you fail to pay any amount due and payable under these Terms and Conditions, we or our Agent may apply any cash held by us, our Agents or you and may sell or dispose of any International Securities under our control or the control of our Agents or any other securities of yours under our control (except shares in Commonwealth Bank of Australia), and apply the proceeds in satisfaction of the monies owing by you and in payment of any reasonable additional charges incurred by us. You will be liable to us for any shortfall or entitled to any surplus proceeds and you agree to bear the foreign exchange risk associated with any such application of cash.



25. You agree that we reserve the right to immediately remove or limit your access to the facilities described in these Terms and Conditions should your usage constitute a breach of these Terms and Conditions or otherwise be considered by us in our discretion to be unreasonable.
26. You agree that:
- (a) if you or a signatory appears to be a Proscribed Person, then we may immediately refuse to process or complete any transaction or dealing of yours; suspend the provision of a product or service to you; refuse to allow or to facilitate any of your assets held by us to be used or dealt with; refuse to make any asset available to you to any other proscribed person or entity; or terminate these arrangements with you. We will be under no liability to you if we do any or all of these things. Our rights under this clause are in addition to all other rights we may have;
  - (b) If we exercise our rights under subclause 26(a), you must pay us any damages, losses, costs or expenses that we incur in relation to any action taken under subclause 26(a), including without limitation, administrative costs and/or costs of sale or purchase of any transaction or deal put in place for the purposes of meeting our obligations under these Terms and Conditions.
27. You warrant that:
- (a) you are authorised to enter into these Terms and Conditions and to authorise us to act on your behalf in International Securities transactions;
  - (b) the Portfolio is free of any security interest or encumbrance, and you agree that in our discretion we or our Agents may decline to hold on your behalf any International Securities of yours affected by any such security interest, encumbrance or other restriction; and
  - (c) that you have obtained your own taxation advice, as necessary, prior to entering into any overseas transactions.
28. You agree that we may enter into custody agreements with an Agent or Agents to enable the provision of custodial services to you in relation to International Securities. If we do enter into custody arrangements with an Agent or Agents, your International Securities will be held by an International Custodian on your behalf. You will retain beneficial ownership (but not legal ownership) of your International Securities. This means that the name of the International Custodian rather than your name will appear on the share registry. Upon your request, we will acknowledge the manner in which the International Securities are held. We acknowledge that we are prohibited from taking or granting any charge, mortgage, lien or other encumbrance over, or in relation to, your International Securities held by an International Custodian, unless:
- (i) it is for expenses and outlays made within these Terms and Conditions (other than our unpaid fees); or
  - (ii) in accordance with your written instructions as set out in these Terms and Conditions or otherwise.
29. If we do enter into custody arrangements with an Agent or Agents, we will provide you with written notice of and the contact information of the International Custodian as soon as reasonably practicable before arranging for your International Securities to be held by that International Custodian (and in any event before your International Securities are held by that International Custodian).
30. The International Custodian that holds your International Securities will retain records relevant to those assets in a way that enables it to readily identify those International Securities which are held on your behalf. The records will also include information about the transactions undertaken and how, by whom and when they were authorised. Upon request, we will make these records available to you.
31. We will apply reasonable verification procedures for the appropriately frequent reconciliation and checking of your International Securities.
32. We will report to you in respect of your International Securities on a periodic basis.
33. You agree you will complete any further documentation when required by us to satisfy any statutory or regulatory requirements associated with these Terms and Conditions or as required by our Agents, including provision of taxation declarations and residency declarations. You must as soon as practicable advise us of any material change in your circumstances that would invalidate any such taxation and residency declarations already provided. If we are so advised, we are entitled to terminate the services provided to you immediately by giving written notice to you, and the provisions of clause 39 of these Terms and Conditions will apply. You agree to indemnify us and our Agents against liability arising from your failure to satisfy any statutory or regulatory requirements.
34. You agree to indemnify us and our Agents against any actions, claims, demands, proceedings, costs, damages, expenses, liabilities and losses including legal costs paid, suffered or incurred in connection with these Terms and Conditions except where caused by our negligence or wilful misconduct.
35. You agree we are not liable to you for the acts or omissions of our Agents.
36. We may from time to time vary these Terms and Conditions to:
- (i) add, change or remove any concessions or benefits;
  - (ii) adopt or implement any legal requirement, decision, recommendation, regulatory guidance or standard of any court, tribunal, or ombudsman service regulator;
  - (iii) accommodate changes in the needs or requirements of our clients, such as new product features or services;
  - (iv) correct errors, inconsistencies, inadvertent omissions, inaccuracies or ambiguities;
  - (v) bring us into line with our competitors, industry or market practice or best practice in Australia or overseas; or
  - (vi) reflect changes in technology or our processes including our computer systems.
- Each of the changes in paragraphs (i) to (vi) is a separate right and this clause is to be read as if such change was a separately expressed right.
- Without limiting our rights under paragraphs (i) to (vi), we may from time to time vary any of the Terms and Conditions for reasons other than the ones mentioned above (e.g. due to unforeseen events). If we vary these Terms and Conditions the changes shall apply to all dealings between you and us on and from the day on which the variation takes effect. We will give not less than seven (7) days notice to you at the postal or electronic address last notified to us by you, or at our website.

37. In the event that you appear to be a Proscribed Person, we will not be responsible for any loss, liability or costs incurred by you where we are unable to receive or act on your instructions.
38. Subject to clause 33, either you or us may terminate the agreement between us governed by these Terms and Conditions by giving not less than seven (7) days' prior written notice to the other.
39. Subject to our other rights under these Terms and Conditions, upon termination of the agreement:
  - (a) any previously arising rights and obligations of either of us will not be affected;
  - (b) we and our Agents may enter into transactions to settle or otherwise extinguish or off-set obligations incurred by us or them in relation to the Portfolio prior to termination;
  - (c) we agree to take all necessary steps to vest control of the Portfolio in you (or as you otherwise direct in writing), subject to payment by you of all charges and expenses and those of our Agents incurred as a result of termination of the agreement.
  - (d) you must within a reasonable time give us instructions regarding the transfer of your Portfolio. If you do not provide us with instructions within a reasonable time, we will sell your Portfolio on your behalf and credit the proceeds to your nominated account.
40. We have and will maintain a business continuity plan which in our opinion is adequate in order to enable us to provide you with an International Securities trading account in any contingency for which we can reasonably plan.
41. Apart from disclosure to the Australian Securities and Investments Commission, where otherwise permitted by law or where you have agreed to the disclosure in these Terms and Conditions, we will keep your confidential information in confidence.
42. You acknowledge that these Terms and Conditions are governed by the laws of New South Wales and you and we submit to the non-exclusive jurisdiction of the courts of New South Wales.
43. If any part of any of these Terms and Conditions is found to be void or unenforceable for unfairness or any other reason (for example, if a court or other tribunal or authority declares it so), the remaining parts of these terms and conditions will continue to apply as if the void or unenforceable part had never existed.

## Risk disclosure statement for derivatives traded on US markets

### All applicants must sign an acknowledgement that they have read this Risk Disclosure Statement.

This document does not disclose all aspects of risk associated with the trading of derivative products. Trading in derivatives is not suitable for some private investors. In light of the risks associated with trading derivative products, you should invest in them only if you understand the nature of the products (specifically, your rights and obligations) and the extent of your exposure to risk. Before you invest, you should carefully assess your experience, investment objectives, financial resources and all other relevant considerations and discuss these with us. You should not rely on this Risk Disclosure Statement as a complete explanation of the risks of investing in derivative products, including Options market contracts.

#### 1. Effect of 'leverage' or 'gearing'

Transactions in all derivative products carry a degree of risk. The initial outlay of capital may be small relative to the total contract value so that transactions are 'leveraged' or 'geared'. A relatively small market movement may have a proportionately larger impact on the value of the contract. This may work against you as well as for you.

#### 2. Specific product risks

The purchaser of an Option market contract, whether it is a Call option or a Put option, has a known and limited potential loss. If a purchased Option market contract expires worthless, the purchaser will lose the total value paid for the option (known as the premium), plus transaction costs.

Selling ('writing') options may entail considerably greater risk than purchasing options. The premium received by the seller of an Options market contracts is fixed and limited; however, the seller may incur losses greater than that amount. For more information on US Options market contracts, you should talk with us and read the OCC publication, Characteristics and Risks of Standardized Options.

#### 3. RISKS RELEVANT TO ALL US DERIVATIVE PRODUCTS

##### (i) Risk-reducing orders or strategies

The placing of certain orders (for example 'stop-loss' orders) which are intended to limit losses to certain amounts may not be effective because market conditions may make it impossible to execute such orders. Strategies using combinations of positions, such as 'straddle' positions, may be as risky as taking simple 'long' or 'short' positions.

##### (ii) Terms and conditions of contracts

You should ask us about the terms and conditions of all derivative products contracts in which you are considering investing. Under certain circumstances the specifications of outstanding contracts may be modified by the relevant clearing and settlement facility.

##### (iii) Suspension or restriction of trading and pricing relationships

Market conditions (for example, illiquidity) or actions by the Options Clearing Corporation or other relevant clearing and settlement facility (for example, the suspension of trading in a derivative Product) may increase the risk of loss by making it difficult or impossible to effect transactions or close out existing positions.

Normal pricing relationships may not exist in certain circumstances; for example, in periods of high buying or selling pressure, high market volatility or illiquidity in the market for a particular derivative product. The Options Clearing Corporation (OCC) and its participant exchanges have broad powers under their respective rules to take action in the interests of maintaining fair and orderly markets and, in some circumstances, this may affect your positions.

*(iv) Margins, cash and property*

You should familiarise yourself with the protections for money or other property you deposit for transactions, particularly in the event of a broker's insolvency or bankruptcy. The extent to which you may recover money or property which you provide to us is governed by the Corporations Act and other legislation and rules. In certain circumstances you may have a claim against the National Guarantee Fund.

*(v) Trading facilities*

As with all trading facilities and systems, the systems used in the market are vulnerable to temporary disruption or failure, which may result in your order not being executed according to your instructions or not executed at all. Your ability to recover certain losses may be subject to limits on liability imposed by the system provider, the Options Clearing Corporation (OCC), another relevant clearing and settlement facility or The Participant.

#### **4. Risks of margin loan covered call writing**

Selling covered call options over margined shares is an investment strategy for the confident investor. There are inherent risks to consider when implementing this strategy and you should ensure that you fully understand them before proceeding. The maximum profit possible from writing a covered call option is the premium earned from writing the option. The main risk of this strategy is that the stock price falls significantly. You still hold the underlying shares, and the written call option provides you protection only to the extent of the premium received.

A second risk is that the stock shows unexpected strength. No matter how high the share price rises, as long as they are subject to the written call the most you will receive for your shares is the options' exercise price (plus the option premium). In regards to stock encumbered on a margin loan, the portfolio value of the stock is capped at the exercise price of the call options. The down side of the stock is not protected and the normal conditions of the margin loan apply if the stock decreases in value. Buying shares on margin involves risks, which you should discuss with your margin lender or financial adviser.

#### **5. Foreign currency risk**

Your US Options will be denominated in US dollars. Adverse foreign exchange rate movements could more than offset any increase in the value of your Options. If the Australian dollar strengthens against the US dollar while you have an open position, the Australian dollar value of your Options will fall.

#### **6. Political and regulatory risk**

Australia, as a member state of the United Nations, is obliged to implement United Nations Security Council sanctions. Australia also may be required to implement other international sanctions and sometimes imposes unilateral sanctions. Sanctions can cover various subject matters including financial restrictions. Consequently, The Participant and Westpac Securities may be prohibited from dealing with certain persons or entities.

This means that if The Participant and Westpac Securities are aware that you are a proscribed person or entity, then The Participant and Westpac Securities may be required to suspend, cancel or refuse you services or close or terminate any account, facility, transaction, arrangement or agreement with you. We may also be required to freeze your assets. You could incur significant costs as a result of these actions.





**We're here to help.**

**If you have any questions, call us on 1300 757 319  
(24 hours a day on US trading days) or visit our  
web site at [westpac.com.au/onlineinvesting](http://westpac.com.au/onlineinvesting)**

