



# Derivatives

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## Shaw and Partners Limited

Shaw and Partners is one of Australia's preeminent investment and wealth management firms.

With a national presence and \$16 billion of assets under advice, Shaw and Partners offers the intimacy of a boutique investment firm with the resources and scale of a major financial group.

We are privately owned and client focused, having helped our clients manage and grow their financial assets for over 30 years. Our emphasis on integrity has enabled us to achieve very high levels of client satisfaction, while unlocking opportunities of significant value.

Backed by fresh thinking, robust research and some of the nation's best investment and wealth experts, our business has been designed to meet the growing needs of our clients. Shaw and Partners offers access to an extensive team of private client advisers, institutional sales and trading specialists, market leading research analysts and strategic corporate financiers.

By working closely with clients and targeting their needs, we have forged strong long-term relationships. So, whether you are an ordinary investor, high net worth individual, charity, institution or corporate, our goal is simple: to listen to you, then act according to your needs alone.

Shaw and Partners, building and preserving your wealth.

# Welcome

**Shaw and Partners is pleased to provide you with the information and documentation necessary to transact in Derivatives on your Client Account.**

## Tailored Advice

At Shaw and Partners, we are dedicated to providing you with a tailored, personal service that suits your individual needs. Shaw's core value proposition to you is our advice. Your Shaw Adviser can assess with you your personal circumstances and determine the best strategy for using Derivatives to meet your investment objectives.

## Versatile Addition

Derivatives are a versatile addition to your investment portfolio that can be used to earn income, accelerate growth, trade movements, increase leverage or protect the value of your portfolio from market falls. Each strategy carries different risks and rewards as explained in the enclosed Product Disclosure Statement for Exchange Traded Options.

## Start Investing

To start transacting in Derivatives please complete, sign and return the enclosed Derivatives Client Account Form and if applicable the Registered Holder Collateral Cover Authorisation (Authorisation). Upon receipt, we will activate the necessary facility on your Client Account so that, among many other strategies, you may immediately:

- earn additional income by selling call options against shares you already own or when buying shares, thereby selling the right for someone else to buy your shares at a set price
- protect the value of your shares from a fall in price, by buying put options to lock in a price for the underlying shares, and
- capitalise on share price or market movements without purchasing the underlying share or market exposure, by buying call options when you expect the underlying share price or market to rise, or buying put options when you expect the underlying share price or market to fall.

## Working Together

There are many ways you can use Derivatives to invest. To discuss the most suitable strategy for your personal circumstances, or if you would like assistance completing your Derivatives Client Account Form or Authorisation, please speak with your Shaw Adviser. If you do not have a Shaw Adviser, please call Shaw and we will introduce you to one of our highly experienced and qualified professionals.

We look forward to assisting you with your investment needs and making your experience both financially and personally rewarding.

# How to get started

To transact in Derivatives through Shaw you need to have first opened a Client Account. If you have not, please call your Shaw Adviser to obtain the necessary Client Account documentation including a Client Account Opening Form. Copies are also available from Shaw's website at [www.shawandpartners.com.au](http://www.shawandpartners.com.au).

In order to trade Derivatives with Shaw:

- 1 Read and retain** the enclosed Product Disclosure Statement for Exchange Traded Options and Derivatives Client Agreement including the Derivatives Agreement, Derivatives Clearing Agreement and Deed of Guarantee and Indemnity. These documents and, if applicable, any Authorisation you provide, supplement the documentation you agreed to when you opened your Client Account.
- 2 Confirm** that the information you have provided in your Client Account Opening Form is current. If you need to update your information, for example your address, please contact your Shaw Adviser. The information you supply here is additional to that in your Client Account Opening Form.
- 3 Complete**, sign and return the Derivatives Client Account Form and, if applicable, the Authorisation in the enclosed reply paid envelope.

## Multiple Accounts

To transact Derivatives across multiple Client Accounts, please ask your Shaw Adviser for additional Derivative Client Account Forms and Authorisations. Please execute these documents in the same manner as listed above. A separate form must be completed for each Client Account.

## Other Products and Services

If you would like to take advantage of our Portfolio Administration Service or Managed Discretionary Account service, please contact your Shaw Adviser for the respective documentation.





## Derivatives Client Account Form (Continued)

### C CLIENT SIGNATURE

By signing below you confirm that the information provided in your Client Account Opening Form is accurate and remains current and you acknowledge that you have read understood and agreed to the terms and conditions of the enclosed:

- Product Disclosure Statement for Exchange Traded Options, and
- Derivatives Client Agreement including the Derivatives Agreement, Derivatives Clearing Agreement and Deed of Guarantee and Indemnity (company clients only).

#### Guarantee and Indemnity

If your Client Account is in the name of a company, by signing below as a director of that company you hereby give a personal guarantee of the Company's obligations to Shaw, and an associated indemnity, in the form of the Deed of Guarantee and Indemnity set out in the Third Part on pages 48 and 49 and the directors, by signing below, are taken to have executed that document as a Deed.

#### Each signatory must sign this section before a witness

Name of Individual 1/Director/Sole Director/  
Company Secretary/Guarantor 1

Name of Individual 2/Director or  
Company Secretary/Guarantor 2

Name of Individual 3

Signature

Signature

Signature

  
x  
x  
x

#### In the presence of

Name of Witness

Name of Witness

Name of Witness

Signature of Witness

Signature of Witness

Signature of Witness

  
x  
x  
x

**Signed sealed and delivered** as a Deed by the Guarantor on

Date

DD / MM / YYYY

*Once completed, please return this form to Shaw in the enclosed reply paid envelope.*

#### OFFICE USE ONLY

#### To be completed by Shaw

Adviser Code

HIN

Date Entered

Verified

Registered Holder Collateral Cover Authorisation (Continued)

**PLEASE COMPLETE THIS FORM USING BLOCK LETTERS AND BLACK OR BLUE PEN**

Client Account Numbers covered by this Authorisation:

1. I/We:

(Registered Holders) with  
Holder Identification Number (HIN):

X																			
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authorise my Controlling Participant to reserve (or withdraw) Financial Products (Collateral) registered in the name of the Registered Holder in ASX Clear Pty Limited (ABN 48 001 314 503) (ASX Clear) Subposition as Collateral Cover for obligations in respect of Options Market Contracts registered in the Client Accounts nominated above with Pershing Securities Australia Pty Limited (ABN 60 136 184 962).

2. The Registered Holder acknowledges that ASX Clear may, in its absolute discretion, decline to accept in relation to all or any particular Client Accounts nominated above for the purposes of accepting paperless lodgements.
3. The Registered Holder acknowledges that on behalf of the Registered Holder, the Controlling Participant will reserve (or withdraw) Collateral in the ASX Clear Subposition by sending the appropriate Collateral lodgement message so that the Collateral lodged comes under the control of ASX Clear, or Collateral withdrawn leaves the control of ASX Clear, in accordance with the ASX Clear Operating Rules and Procedures (as amended from time to time).
4. In registering Collateral in the ASX Clear Subposition, the Registered Holder acknowledges that the Collateral will be subject to a fixed charge (the Charge) in favour of ASX Clear from the time they are reserved to the ASX Clear Subposition in the manner referred to above, and will remain subject to the Charge until ASX Clear permits it to be withdrawn from the ASX Clear Subposition.
5. The Registered Holder acknowledges that the Charge secures all amounts and obligations owing by the ASX Clear Participant to ASX Clear in connection with the Client Accounts nominated above opened by the ASX Clear Participant, in accordance with the ASX Clear Operating Rules and Procedures (as amended from time to time).
6. The Registered Holder acknowledges that the Registered Holder has read and understood the ASX Clear Operating Rules and the ASX Settlement Operating Rules, in so far as those rules relate to the Collateral and the Charge, including:
  - a. ASX Clear’s power to deal with the Collateral on default by the ASX Clear Controlling Participant in respect of the Client Accounts nominated above, and
  - b. in particular, ASX Clear’s power of sale in relation to the Collateral without any notice to the Registered Holder.

(Continued overleaf)

**Signed by the Registered Holder**

Name of Registered Holder 1/Director/  
Sole Director and Company Secretary

Name of Registered Holder 2/ Director  
or Company Secretary

Name of Registered Holder 3




Signature

Signature

Signature




**Witnessed by**

Name of Witness

Signature of Witness

Date



DD / MM / YYYY

Once completed, please return this form to Shaw in the enclosed reply paid envelope.

## Registered Holder Collateral Cover Authorisation (Continued)

7. The Registered Holder warrants that unless ASX Clear otherwise agrees in writing, the Collateral is not and may not be subject to any other security interest, other than a security interest provided to a margin lender under a deed of priority, entered into between ASX Clear and the margin lender, which provides that ASX Clear's Charge has priority over the margin lender's security interest (the Deed of Priority) or a security interest as permitted under the ASX Clear Operating Rules or the ASX Settlement Operating Rules.
8. If the Registered Holder's Controlling Participant named in this Authorisation is a margin lender, the Registered Holder warrants that they have signed an acknowledgement regarding the Deed of Priority as set out in Schedule 2 or Schedule 3, as applicable, to the Deed of Priority.
9. If the ASX Clear Participant is unable to insert the Account Numbers and/or HIN at the time the Registered Holder signs this form, the Registered Holder irrevocably authorises the ASX Clear Participant to insert the Account Numbers and/or HIN on this agreement and agrees the ASX Clear Participant will insert the Account Numbers and/or HIN on the Registered Holder's behalf, prior to lodging this Authorisation with ASX Clear. The ASX Clear Participant agrees that it will notify the Registered Holder of the Account Numbers and/or HIN in writing as soon as reasonably possible.
10. Defined terms have the same meaning as defined in the ASX Clear Operating Rules or the ASX Settlement Operating Rules and Procedures (as amended from time to time).



# Product Disclosure Statement for Exchange Traded Options

This is an important document. Please read it carefully and make sure you understand it before accepting its terms. Should you have any queries regarding this document, please contact your Adviser. Within this Product Disclosure Statement for Exchange Traded Options (PDS), Client Agreement and Derivatives Agreement, a reference to:

- Derivatives includes Options
- Options includes exchange traded options (ETOs), low exercise price options (LEPOs) and ASX Derivative Products, and
- ETOs include equity ETOs, index ETOs and LEPOs.

## Two Parts

This PDS is in two parts. The first part contains all information other than the Schedule of Fees. The second part contains the Schedule of Fees. You should read both parts of the PDS before making a decision to buy or sell Options and you should retain it for future reference.

## Part 1 of the PDS: General

### A. Purpose and Disclosures

Shaw and Partners Limited (ABN 24 003 221 583) (Shaw) has prepared this PDS dated 1 July 2012. Pursuant to the Corporations Act 2001 (Corporation Act), Shaw is deemed to be the issuer of ETOs or LEPOs (together, Options, ETOs or ASX Derivative Products) when these products are bought or sold on the ASX through Shaw. Options issued by Shaw are interchangeable with contracts issued by any other Participant of ASX Group. A list of companies and indices over which Options may be bought or sold is available at [www.asx.com.au](http://www.asx.com.au), together with a list of current Option codes, and delayed price information. If you cannot access the information, please contact your Adviser and you will be provided with the details.

This PDS has not been lodged with the Australian Securities and Investments Commission (ASIC) and is not required by the Corporations Act to be lodged with ASIC. ASIC takes no responsibility for the contents of this PDS.

This PDS is designed to assist you in assessing whether Options are appropriate for you. It is an important document and you should read it in full. The shares and Options markets are volatile. Investments in shares and Options may involve a high degree of risk and are not suitable for all investors. Losses may be incurred as a result of movements in the underlying share or market index. If you are in any doubt as to the suitability of Options you should contact your Adviser before entering into an Options contract. Although the information in this PDS is current as at the date of publication, it is subject to change from time to time. Where such information is not materially adverse, we will provide updates at [www.shawandpartners.com.au](http://www.shawandpartners.com.au). A hard copy is available on request at no charge to you. We may also be required to issue a new or supplementary PDS as a result of certain changes, in particular where the changes are materially adverse to you. Any new or supplementary PDS will be available at [www.shawandpartners.com.au](http://www.shawandpartners.com.au).

It is not possible in this PDS to take into account your investment objectives, financial situation and particular needs (your personal circumstances). Neither Shaw, nor its Advisers, guarantee the performance of any Option. Nothing contained in this PDS constitutes the giving of general or personal financial product advice or a recommendation concerning the entry into transactions or participation in Options. In preparing this document Shaw has not taken into account your personal circumstances. Before making a decision whether to invest in Options, you should seek independent tax advice.

Should you enter an Option transaction with Shaw, it will be on the terms and conditions set

out in the Client Agreement, Derivatives Client Agreement and this PDS (Terms). These Terms may include any additional terms as may be agreed between you and Shaw in writing before your Derivatives Client Account Form is signed. It is important that you read these Terms in full, as they set out your rights and obligations in relation to Options.

The terms *we*, *us* and *our* used in this PDS, is a reference to Shaw.

## Products covered

This PDS relates to ETOs traded on the market operated by ASX Limited (ACN 008 624 691) (ASX) and settled and cleared by ASX Clear Pty Ltd (ACN 001 314 503) (ASX Clear).

## About Shaw

Shaw is a market participant of ASX and holder of Australian financial services licence number 236048. Shaw provides a range of financial services to private and institutional clients as set out in its FSG contained in its Client Account documentation. Shaw is required to comply with the provisions of the Corporations Act as administered by ASIC. If you have any queries in relation to this PDS or the services we provide, please do not hesitate to contact us or your Adviser using the details below:

### Shaw and Partners Limited

#### Head Office

Level 15, 60 Castlereagh Street  
Sydney NSW 2000  
Tel: +61 2 9238 1238  
Fax: +61 2 9232 1296

Web: [www.shawandpartners.com.au](http://www.shawandpartners.com.au)  
Email: [enquiries@shawandpartners.com.au](mailto:enquiries@shawandpartners.com.au)

## Your Adviser

Your Adviser is an authorised representative of Shaw. Your Adviser is an independent contractor to Shaw as opposed to an employee. Your Adviser may be a company, with sub-authorised representatives, or an individual. Your Adviser's details will be set out in any Statement of Advice we send to you. If you do not have an Adviser, please contact Shaw so that we may introduce you to one of our highly experienced and qualified professionals.

If you already own shares, options or other financial products, your Adviser can review your portfolio of holdings and help you decide whether those financial products are appropriate for you having regard to your personal circumstances. If you do not already

own shares or other financial products, your Adviser can help design an investment portfolio to suit your personal circumstances.

Your Adviser cannot provide any legal, accounting or taxation advice. However, your Adviser can work in conjunction with your professional advisers such as your financial planner or accountant, to help you achieve your financial objectives.

## Shaw's Clearing Participant

Shaw uses the services of a third party Clearing Participant, which is a member of ASX Clear, to settle all ASX transactions we execute on your behalf. Currently, Shaw uses Pershing Securities Australia Pty Limited (ABN 60 136 184 962) as its Clearing Participant, being holder of Australian financial services licence number 338264 (Shaw's Clearing Participant). To the extent that Shaw has any rights or obligations with respect to any client pursuant to the Derivatives Client Agreement, we may choose to exercise such rights or obligations by delegating these to Shaw's Clearing Participant to perform on our behalf.

## ASX Educational Booklets

ASX has prepared a number of educational booklets relating to Options. The current booklets are available free of charge to you via Shaw's website at [www.shawandpartners.com.au](http://www.shawandpartners.com.au) or ASX's website at [www.asx.com.au](http://www.asx.com.au). A number of ASX booklets are relevant to Options and this PDS including:

- Options – A Simple Guide. A simple fact sheet on the basics of Options.
- Index Options. A simple fact sheet on the basics of index options.
- Understanding Options Trading. Discusses the features and contract specifications of Exchange Traded Options, the risks and advantages in trading Options and gives examples of how ETOs work along with basic Option trading strategies.
- Understanding Option Strategies. Discusses in more detail how ETOs may be used in various trading strategies.
- Margins. Explains what margins are, how they are calculated by ASX Clear and how a Clearing Participant may meet its margin obligations to ASX Clear.
- Understanding Low Exercise Price Options. Explains what LEPOs are and discusses the specific features, risks and advantages in trading LEPOs.

- Using Options for Margin Lending. A fact sheet on the use of Options to add to your margin lending capabilities.
- Taxation Treatment of Options. An explanation from the accounting firm Deloitte as to the appropriate tax treatment of ETOs.

The ASX website, [www.asx.com.au](http://www.asx.com.au), contains Options calculators, tools and trading information which may be useful to you. If you cannot access the above ASX booklets via that website, please contact ASX or your Adviser. If you would like a hard copy of any of the above booklets and in particular the booklet *Understanding Options Trading*, please contact Shaw and we will forward a copy of that booklet to you at no charge.

## B. Basic Features of ETOs

The following discussion is not intended to be a detailed discussion of all features of ETOs, but rather to identify some of the key features of ETOs. For a more detailed description, you should refer to information under the heading *ASX Educational Booklets* in section A of this PDS.

### Types of ETOs

The three types of ETOs traded on ASX are as follows:

- **Equity options** are options over financial products quoted on ASX, for example, shares of listed companies. These options are known as deliverable options in the sense that, upon exercise, one party must take delivery of the underlying financial product.
- **Index options** are options over an index such as the S&P/ASX 200 Index or the S&P/ASX200 Property Trust Index. These options are known as cash settled options in the sense that, upon exercise of an option, the Buyer (taker) of the option will have the right to receive an amount of money and the Seller (writer) will have a corresponding obligation to pay that amount (provided the option is in the money). The amount of money will be determined by the difference between the exercise level (set by ASX) and the Opening Price Index Calculation (OPIC) as calculated by ASX on the expiry date of the option. The OPIC is based on the first traded price of each constituent stock in the index on the expiry day (if a constituent stock does not trade on the expiry day, the last traded price from the previous trading day will be used). Cash settlement occurs in accordance with the rules of ASX Clear.

- **LEPOs** are call options with an exercise price of one cent per underlying share or in respect of index LEPOs, an exercise level of one point of the underlying index. In other words, they function in a similar way to equity options, but with a very low exercise price.

### Use of ETOs

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

- hedge against fluctuations in your underlying share portfolio
- increase the income earned from your portfolio (through the earning of premium income)
- increase returns from leverage
- diversify your portfolio, and
- profit from market movements.

Their flexibility stems from the ability to both buy (take) and sell (write) an ETO contract and undertake multiple positions targeting specific movements in the overall market and individual underlying shares. Index options can be used to trade a view on the market as a whole, or on a sector of the market that is covered by a particular index. The use of ETOs within an investor's overall investment strategy can provide flexibility to take advantage of rising, falling and neutral markets. However, both the purchase and sale of ETOs involve risks, which are discussed in greater detail later in this PDS.

### Concepts

The following concepts need to be understood before trading in ETOs:

- the effect that time has on a position or strategy
- how volatility changes, both up and down, may affect the price or value of an option and the potential outcome
- how to calculate margins and worst case scenarios for any position
- the likelihood of early exercise and the most probable timing of such an event
- the effect of dividends and capital reconstructions on an option position, and
- the liquidity of an option, the role of market makers and the effect this may have on your ability to enter and exit a position.

Whilst this PDS provides product information including information about the risks, characteristics and benefits of Options, you should inform yourself of and if necessary, obtain advice about the specific risks, characteristics and benefits of the Option you intend to trade and relevant ASX rules.

### Standardised contracts

The terms and specifications of ASX's ETOs (other than the premium, which is negotiated between the Buyer (taker) and Seller (writer)) are determined by ASX in accordance with ASX's rules. Details of the contract specifications and standardised features for ETOs traded on ASX are published by ASX on their website. ASX determines the key contract specifications for each series of ETO. For example, in the context of equity options, ASX sets the following:

- the underlying security (e.g. NAB)
- whether the option is a call option or a put option
- the contract size - the number of units of the underlying security to which the option relates. The contract size for equity options set by ASX is usually 100 (e.g. one contract is equal to 100 NAB shares). The contract size of Index Options is usually \$10 per index point
- exercise style – that is, American style or European style
- the exercise price (or strike price) – the specified price at which the Buyer of an equity option can, through exercise of the option, buy (in the case of a call option) or sell (in the case of a put option) the underlying securities, and
- the expiry date.

In accordance with its rules, ASX may make an adjustment to any of the above specifications, as discussed below under the heading *Adjustments* in section B of this PDS.

Similarly, for index options, the relevant parameters will also be set by ASX, including the underlying index, index multiplier, exercise style (European), exercise level intervals of the option and expiry date. Some of the concepts referred to above, such as contract size, exercise style, exercise price and expiry date are discussed in more detail below.

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

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

Buyers of ETOs are referred to as *takers* as they take up the right to exercise the option (e.g. the right to exercise the option and either buy or sell the underlying shares at the exercise price, in the case of an equity option).

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

### Call and put options

ETOs may be call options or put options. The type of call options and put options will depend on whether the options are equity options or index options.

For equities, a call option gives the Buyer (taker) the right, but not the obligation, to buy a quantity of underlying shares at a pre-determined price on or before a pre-determined date. If the Buyer exercises their right to buy, the Seller (writer) to which the exercise notice is assigned by ASX Clear, is required to sell the quantity of shares at the pre-determined exercise price.

For equities, a put option gives the Buyer the right, but not the obligation, to sell a standard quantity of underlying shares at a pre-determined price on or before a pre-determined date. If the Buyer exercises their right to sell, the Seller to which the exercise notice is assigned by ASX Clear is required to buy the quantity of shares at the pre-determined exercise price.

In relation to an index, a call option gives the Buyer the right, but not the obligation to exercise the option. If the OPIC level of the index exceeds the exercise level of the index option, the Buyer will, upon exercise of the option, have the right to receive an amount of money that is determined by multiplying the difference between the closing level and the exercise level by the index multiplier specified by ASX. If the Buyer exercises the option, the Seller to which the exercise notice is assigned by ASX Clear, is required to pay the corresponding amount.

In relation to an index, a put option gives the Buyer the right, but not the obligation to exercise the option if the OPIC level of the index is less than the exercise level of the index option. The Buyer will on exercise of the option, have the right to receive an amount of money as detailed for a call option and the Seller will need to pay the corresponding amount.



## Exercise style

ETOs may be of American or European exercise style. American style options can be exercised at any time prior to and including the expiry day. European style options can only be exercised on the expiry day and not before. Most equity ETOs are American style options. Index ETO and LEPOs are European style options.

## Premium

As noted, the only term of an option contract an investor trades on ASX that is not set and pre-determined by ASX, is the price of the contract. The price, known as the *premium* is negotiated between the Buyer (taker) and Seller (writer) of the ETO through the market.

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

The premium for an index option is calculated by multiplying the premium (specified in terms of the number of points of the index) by the index multiplier. For example, a premium of 30 points with an index multiplier of \$10.00 represents a total premium value of \$300 per contract.

The value of an Option will fluctuate during its life depending on a range of factors including the exercise price, the price of the underlying share, the level of the underlying index, the volatility of the underlying share or index, the time remaining to expiry, interest rates, dividends and general risks applicable to markets.

Option premium can be separated into two parts – *intrinsic value* and *time value*. Different factors influence intrinsic and time value. Intrinsic value is the difference between the exercise price of the ETO and the prevailing market price of the underlying shares at any given time. Time value represents the amount you are prepared to pay for the possibility that the market might move in your favour during the life of an ETO. The time value is determined by:

- volatility
- time to expiry
- interest rates, and
- market expectations.

As the expiry date draws nearer, the time value diminishes. This erosion of ETO value is called *time decay*. Time value does not decay at a constant rate however, typically increasing in rate as the expiry date draws closer. As a general guide, an ETO will lose a third of its time value during the first half of its life and two thirds during the second half.

*Volatility* is one of the most important influences in the price of an ETO. Volatility measures the amount by which an underlying share is expected to fluctuate in a given time period. Volatility contributes significantly to the price of ETO premium and time value. The higher the volatility, the more chance the option has of becoming profitable before expiration. Generally, the more volatile the market, the higher the premium will be as the Seller is exposed to a greater possibility of incurring loss. The receipt of higher premium is compensation for this increased risk.

A rise in interest rates will increase call option premiums and reduce put option premiums.

Ultimately, supply and demand determine the market value of all Options. During times of strong demand, premiums will generally be higher.

If an underlying share goes ex-dividend during the life of an ETO, the premium of a call option will be lower as shares tend to fall in value on going ex-dividend. Conversely, if the share had not gone ex-dividend during the life of the option, the premium of a put option becomes higher. This is because share price declines make call options less valuable and put options more valuable.

Most Option pricing involves the use of a mathematical formula that includes the calculating of intrinsic and time values of the particular Option. You should refer to the information under the heading *Option pricing fundamentals* in the ASX Booklet *Understanding Options Trading* for more information regarding the fundamentals of pricing Options. ASX also provides a pricing calculator on its website at [www.asx.com.au](http://www.asx.com.au) or you may speak with your Adviser to assist with price information.

## Out of, At or In the money

A call option is *out of the money* if the strike price of the option is greater than the market price for the underlying security or index. That is, any purchase of a security will be at a price higher than the market price. A put option is *out of the money* if the strike price of the option is lower than the market price for the underlying security or index.

A call and a put option are *at the money* if the strike price of the option is the same price as the market for the underlying security or index.

A call option is *in the money* if the strike price of the option is lower than the market price for the underlying security or market. A put option is *in the money* if the strike price of the option is higher than the market price for the underlying security or index.

## Adjustments

ASX may, in accordance with its rules, make an adjustment to any of the specifications of an Option to reflect corporate actions in respect of the underlying shares, for example if the issuer makes a bonus issue, rights issue, special dividend, capital reduction or other similar event. If ASX does make an adjustment, it will endeavour to do so in a way which puts the Buyer (taker) and Seller (writer) in substantially the same economic position they would have been in had the adjustment event not occurred, so as to preserve the value of open positions of Buyers and Sellers at the time of the adjustment.

In some cases, ASX may decide not to make an adjustment for a corporate action and instead, direct that open positions be terminated or closed out. When ASX makes an adjustment to the terms of an option series, ASX Clear will make a corresponding adjustment to the terms of contracts that are already open. For further details ASX has issued an *Explanatory Note for Option Adjustments* that can be viewed at [www.asx.com.au](http://www.asx.com.au).

## No entitlements

The parties to an equity option do not, under the terms of the option, have any entitlement to dividends, franking credits or other entitlements paid or made by the issuer of the underlying shares. The Seller (writer) of a call option or the Buyer (taker) of a put option will only have such entitlement should they directly hold the shares.

If the Buyer of a call option wants to participate in a prospective dividend or entitlement, the Buyer will need to first exercise the option, allowing sufficient time to become the registered holder prior to the ex-dividend or entitlement date. The resulting sale and purchase of underlying shares on the exercise of an equity option will settle on the third business day following the exercise of the option. More information is provided on this subject under the heading *Settlement Process* within section B of this PDS.

## Expiry

ETOs have a limited life span. All ETOs have an expiry month, which generally follow one of three cycles, namely:

- January/April/July/October
- February/May/August/November, or
- March/June/September/December.

Options expire on a specified day in the expiry month, as determined by ASX. For equity options, the option generally expires at 7pm Australian Eastern Standard Time (AEST) on the Thursday preceding the last Friday in the expiry month, as long as both the Thursday and Friday are full business days. Therefore, if the last day of the month is a Thursday, the option will expire at 7pm AEST on the Thursday prior. For index options and index LEPOs, expiry is at 12pm AEST on the third Thursday of the contract month provided that day is a business day. On each occasion exercise notices can be made to ASX Clear by the given time on the relevant expiry date. Expiry information is available at [www.asx.com.au](http://www.asx.com.au). You should follow the links to *Trading information* and then *Expiry calendar*. ASX Clear has the right to change these expiry dates should the need arise.

## Exercise

The Buyer (taker) of an ETO has the right (but not the obligation) to exercise the option contract. This means that the Seller (writer) of an ETO may be exercised against at any time prior to expiry (American style only). When the Buyer exercises an option, ASX Clear will randomly assign that exercise to an open position held by a Seller in the relevant option series.

## Automatic exercise

Shaw will automatically exercise your taken ETO contract on the expiry date of the option if your contract is one cent *in the money* for equity options or one point *in the money* for index options. For call options, the option will be *in the money* where the exercise price is below the price of the underlying shares. For put options, the option will be *in the money* where the exercise price is higher than the price of the underlying shares. All unexercised option contracts will expire on the expiry date.

## Deliverable or cash settled

ETOs are either deliverable or cash settled. Options are described as deliverable where the obligations of the Buyer (taker) and Seller (writer) are settled by the *delivery* of the underlying share. Equity options are deliverable because



upon exercise, one party is required to transfer the underlying shares to the other at the exercise price. Options are described as cash settled where the obligations of the Buyer and Seller are settled by payment and receipt of a cash amount. Index options are cash settled.

### Settlement process

When an equity option is exercised by a Buyer (taker) and the exercise is assigned by ASX Clear to an open position of a Seller (writer), a contract for the sale and purchase of the underlying shares at the exercise price will arise between the Seller and the Buyer. The parties to this transaction must then settle that transaction in the same way as any other ASX transaction for shares. Payment for and the delivery of underlying shares, occurs via ASX Clearing House Electronic Subregister System (CHES) on T+3. CHES is operated by ASX Settlement Pty Limited, the settlement facility for ASX transactions and settlement will occur in accordance with the ASX Settlement Operating Rules. Your obligations in relation to settlement are set out in your Client Agreement and Derivatives Client Agreement.

Index options are cash settled. When an index option is exercised by a Buyer and the exercise is assigned by ASX Clear to an open position of a Seller, the Seller of the option must pay the cash settlement amount to ASX Clear. That amount will be determined by the difference between the exercise level (set by ASX) and the OPIC, as calculated by ASX on the expiry date. Cash settlement occurs in accordance with the rules of ASX Clear. For more information on settlement of index options see the section entitled *Trading Index Options* in the ASX Booklet *Understanding Options Trading*.

### Time to settle

Shaw and its Clearing Participant, require that you settle by 9am of the next business day (T+1) all trading debits or other cash financial transactions which arise from your dealings in Options. This requirement is reflected in the terms of our Derivatives Client Agreement with you. You are required to pay the margin amount we call from you within 24 hours of being advised of the margin shortage or sooner should we choose. Please refer to the information under the headings *Margins* and *Additional Margins* in section C of this PDS.

For cash settled ETOs the settlement amount is paid to exercising Buyers (takers) on the day following the expiry date. The calculation used for settling ETOs over an index is determined

by special formula. If you intend investing in ETOs over an index you should take the time to understand these arrangements. For more information please refer to the relevant section of the ASX Booklet *Understanding Options Trading*.

Payment for and the delivery of underlying shares upon exercise of an open ETO via CHES is required on T+3 (i.e. the third business day after the transaction was undertaken).

Shaw, or its Clearing Participant, is obliged to make the above payments to ASX within this timeframe.

### Cooling off period

There are no cooling-off arrangements for ETOs.

### Opening a position

Unlike shares, ETOs are not instruments that a person buys or sells in the ordinary sense. ASX sets the terms of ETOs and, if we enter into a contract for you as Buyer (taker) or Seller (writer), we are regarded as having *opened* the contract for you. If you have opened a position as the Buyer of an ETO, you have three alternatives:

- exercise the option
- hold the option to expiry and allow it to expire worthless, or
- close the position by selling an option in the same series and instructing us to close out the open position.

If you have opened a position as the Seller of an ETO, you have two alternatives:

- let the option run to expiry and risk being exercised (if not exercised, it will expire without any further obligation or liability to you), or
- close out the option by buying an option in the same series (provided it has not been exercised).

### Closing a position

An ETO may be *closed out* by entering into an option in the same series, but opposite position. In other words, if you have an open position in an option as a Buyer (taker), you can close out that position by entering into an option in the same series as a Seller (writer). This effectively cancels out the open position. For example, an investor might close out an open option contract in the following scenarios:

- The investor may want to avoid an unwanted early exercise. For example, the Seller of an option may want to close out the option (by taking an option in the same series) to avoid the risk of having a Buyer's exercise notice allocated to the Seller's option.
- The investor may want to take a profit. For example, the Buyer of a call option may have paid a premium of \$1 per option and the same option series may now be sold for a premium of \$1.20, because the price of the underlying share has increased. The Buyer may therefore close out his or her position by selling an option in the same series, profiting from the difference of \$0.20 per underlying share.
- The investor may want to limit a loss. For example, the Buyer of a call option may have paid a premium of \$1 per option and the same option series may now be sold for only \$0.80, because the price of the underlying share has decreased or because the time to expiry has reduced. The Buyer may therefore close out his or her position by selling an option in the same series, crystallising a loss of the difference of \$0.20 per underlying share.

It is important that you advise us if you are seeking to *close out* an existing position when placing your order. Closing out can be achieved without reference to the original party to the trade because of the process of novation. ASX Clear is able to substitute a new Buyer as the contract party when an existing Buyer sells to close their position. The process of novation is discussed in more detail below under the heading *The Role of ASX Clear* in section C of this PDS.

## LEPOs

LEPOs are essentially equity options with an exercise price of one cent per underlying share. LEPOs are European style options, in other words, they can only be exercised on the last trading day before they expire.

The Buyer (taker) of a LEPO has the right to buy an agreed number of shares (e.g. 100 shares per LEPO contract) at a specified future date in return for the payment of the exercise price (one cent per share). The Seller (writer) of a LEPO undertakes to sell the underlying shares at expiry in return for the exercise price. As with other options, the Seller of a call option is only required to deliver the underlying shares if the Buyer exercises the option. When you enter into a LEPO you do not pay (or receive) upfront the full amount of the premium. Instead, you pay or receive margins during the life of the LEPO (that

is, the LEPO is marked to market daily) and pay or receive the balance of the premium if and when you exercise the LEPO.

LEPOs are different from standard ETOs in a number of respects, summarised below:

- LEPOs are only available as call options.
- LEPOs are European style options, meaning they are exercisable on the last trading day before they expire, while standard equity options are generally American style options.
- LEPOs have a very low exercise price and a much higher premium – close to the initial value of the underlying shares, the subject of the LEPO.
- LEPOs have only one exercise price per expiry month, unlike other options, which offer a range of exercise prices.
- LEPOs do not require an amount equal to the full premium to be paid on purchase. Instead the Buyer effectively pays a margin, which represents a percentage of the value of the underlying shares. In standard equity options, the Buyer pays the premium up front and the Seller receives the premium up front.
- Both the Buyer and Seller of a LEPO are subject to ongoing margining.

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

Although the exposure with LEPOs is similar to owning the underlying shares, you are not entitled to dividends or other rights attached to the shares, such as voting rights.

## C. Clearing and Settlement

ETOs traded on ASX are cleared through ASX Clear, a licensed clearing and settlement facility under the Corporations Act. Shaw's Clearing Participant, as a participant of ASX Clear will clear and settle all ETOs traded with Shaw. In doing so Shaw's Clearing Participant must comply with the ASIC Market Integrity Rules and ASX Clearing Operating Rules.

## The role of ASX Clear

When we enter into an ETO for you, the transaction is reported to ASX Clear for registration. Upon registration of a contract by ASX Clear, the original traded contract is terminated and replaced by two contracts, known as Derivatives CCP Contracts. One contract is between the Clearing Participant who clears the contract for the Buyer (taker) of the option and ASX Clear. The other contract is between the Clearing Participant who clears the contract for the Seller (writer) of the option and ASX Clear. This process of registration and creation of two Derivatives CCP Contracts is known as novation and is described briefly in the ASX booklet *Understanding Options Trading*.

You, as the client, are not party to either of those contracts actually registered with ASX Clear. Although Shaw may act on your instructions or for your benefit, upon registration of the ETO with ASX Clear in our Clearing Participant's name, the Clearing Participant incurs obligations to ASX Clear as principal, even though the ETO was entered into on your instructions. All ETOs traded for you by Shaw will be cleared by Shaw's Clearing Participant.

## Margins

ASX Clear contracts with Clearing Participants as principals. Where a Clearing Participant has an exposure under an ETO contract to ASX Clear, ASX Clear will call amounts of money known as *margin* from the Clearing Participant as cover.

Margins are generally a feature of all Options and are designed to protect ASX Clear against default. A margin is the amount calculated by ASX Clear as being 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 ASX Clear. This is because ASX Clear is exposed to the risk that the Seller will not perform their 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 (together with any transaction costs).

The total margin called by ASX Clear for ETOs is made up of two components, in each case, determined by ASX Clear:

- premium margin – the market value of the particular position at the close of business each day, and
- risk margin – the potential change in the price of the option contract assuming the assessed maximum probable intraday movement in the price of the underlying share or index.

Amounts of margin are determined daily by ASX Clear, following the close of trading each day. In times of extreme volatility ASX Clear may make an intraday margin call. Shaw's Clearing Participant will, under the terms of our Client Agreement and Derivatives Client Agreement, call from you all amounts of margin which ASX Clear requires in respect of positions which we have entered into for you.

Shaw, and at our direction Shaw's Clearing Participant, may also call for greater amounts of margin if we regard this as appropriate.

## Additional margins

At our discretion Shaw can, or as directed by us Shaw's Clearing Participant may, assign an additional margin buffer (margin multiplier) to each account to be paid to Shaw's Clearing Participant above those set by ASX Clear. We may, at our discretion, assign a maximum margin limit to each account. You will need to ensure your account's total margin does not exceed the account's margin limit.

In addition to the margins payable to ASX Clear, Shaw might, for instance, apply a margin multiplier of:

- 20% to Australian resident retail clients accounts above the ASX Clear calculated margins.
- 35% to foreign resident retail client accounts above the ASX Clear calculated margins.

By way of example if your margin requirement to ASX Clear is \$1000, you will be required to provide Shaw's Clearing Participant with \$1,200 if you are an Australian resident retail client and \$1,350 if you are a foreign retail client. Shaw may, at its sole discretion, impose a higher margin should it form the view that it is warranted. Any additional margin not called by ASX Clear will be deposited in Shaw's Clearing Participant's trust account.

## Collateral

ASX Clear 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 ASX Clear may be lodged with ASX Clear as collateral for margin

obligations relating to ETO positions. Unlike cash, when shares are lodged with ASX Clear, the shares are held as third party security in the sense that they represent collateral provided by you to secure Shaw's Clearing Participant's obligations to ASX Clear. The lodged shares cannot be used by Shaw or its Clearing Participant in relation to Shaw's dealings, or for our other clients in relation to their dealings, unless authorised by you.

As a risk management tool, ASX Clear will likely apply a *haircut* in relation to the value of shares lodged. For example, if you lodge \$10,000 worth of shares and ASX Clear applies a 30% haircut, only \$7,000 will be considered as collateral cover for any margin obligations. The margining process used by ASX Clear is explained in detail in the ASX booklet *Margins* which is available on the ASX website.

You must pay margin to Shaw's Clearing Participant, or provide alternative collateral that is acceptable to us, within 24 hours of being advised of the call for it (or sooner as required by Shaw). Any interest levied on late settlement and margin payments is due and receivable at the time the amount is levied and within one business day of the demand being made by Shaw.

### Client trust accounts

The Corporations Act provides that your money held in Shaw's trust account or our Clearing Participant's trust account can be used for the purposes of meeting margin obligations, guaranteeing, securing, transferring, adjusting or settling your dealings in derivatives. This money will not be used to meet the obligations of any other party.

### National Guarantee Fund

The National Guarantee Fund (NGF) provides investors with protection in the following circumstances:

- if an equity option is exercised, the NGF guarantees completion of the resulting trades in certain circumstances, and
- if you have entrusted property to Shaw or its Clearing Participant in the course of dealing in ETOs, and either party becomes insolvent, you may claim on the NGF in accordance with the rules governing the operation of the NGF, for any property which has not been returned to you or has not otherwise been dealt with in accordance with our obligations to you. There are limits on claims against the NGF for property entrusted. For more information on the possible protections offered by the NGF see [www.segc.com.au](http://www.segc.com.au).

## D. Benefits

### Benefits of ETOs

ETOs have a number of advantages including:

- **Hedging.** Investors can hedge (protect) their share portfolio against a drop in value by, for example, buying (taking) equity put options over particular shares.
- **Income.** Shareholders can earn income by selling (writing) call options over underlying shares they already hold. As a Seller (writer) of options, the investor will receive the premium amount upfront, when the option transaction is entered. However, the Seller will need to maintain margin obligations throughout the life of the option, and the position could be exercised. This exercise will result in the Seller being required to deliver the underlying shares to the Buyer (taker) at the exercise price.
- **Time to decide.** By buying a call option, the purchase price for the underlying shares is locked in. This gives the call option holder time to decide whether or not to exercise the option and buy the shares. The holder has until the expiry date to make the decision. Likewise the Buyer of a put option has time to decide whether or not to sell the shares.
- **Reduce default risk.** ETOs benefit from standardisation and registration with a clearing and settlement facility that reduces counterparty default risk. Shaw's Clearing Participant's risk is to ASX Clear, not to a third party. This process also provides the benefit that an open position can be closed out without having to deal with the original counterparty.
- **Speculation.** ETOs can be used for speculation where the flexibility of entering and exiting the market prior to expiry (subject to liquidity) permits an investor to take a view on market movements and trade accordingly. In addition, the variety of option combinations allows investors to develop strategies regardless of the direction of the market.
- **Profit in a rising or falling market.** Investors can profit from both rising and falling markets depending on the strategy they have employed. Strategies may be complex and will have different levels of risk.
- **Leverage.** Trading in options can allow investors to benefit from a change in the price of the share without having to pay the full price of the share. An investor can purchase an option (representing a larger



number of underlying shares) for less outlay and still benefit from a price move in the underlying shares. The ability to make a higher return for a smaller initial outlay is called leverage. Investors however, need to understand that leverage increases risk.

- **Diversify portfolios.** Given the lower initial outlay attached to options, investors can diversify their portfolios and gain broader market exposure over a range of shares or an index.
- **Offsetting positions.** Investors can reduce their initial outlay to the extent that they have offsetting positions. An ETO position may be closed out by placing an order equal and opposite in effect to the original order – this effectively cancels out the open position.

### Information on trading strategies

For information and examples regarding trading strategies using ETOs, refer to the *Pay-off* section in the ASX booklet *Understanding Options Trading* available on the ASX website.

### Benefits of LEPOs

LEPOs carry all the benefits detailed above for ETOs other than time to decide. LEPOs have additional advantages including:

- when opening a LEPO contract you gain exposure to the full value of the underlying shares but actually pay only a fraction of the full premium of the LEPO upfront. This potentially provides a greater return to the investor but also means LEPOs have a higher risk profile.
- selling a LEPO gives you exposure to a decline in the value of the underlying asset, enabling you to profit if the price of the asset falls. The sale of a LEPO can be compared to a short position over shares. Using a LEPO can also be a cost effective alternative to borrowing to fund a purchase of shares.
- credit margins from existing open positions may be used to reduce the initial margin payable. This can further reduce the cash outlay when opening a contract.
- LEPOs are European style options, meaning they are only exercisable at expiry and you will not have to be concerned about the possibility of an early exercise. For further information and detailed examples of LEPOs trading, refer to the *LEPOs Low Exercise Price Options* Explanatory Booklet on the ASX website.

## E. Risk Disclosure

Trading in ETOs can carry the risk of substantial loss. Accordingly ETOs are not suitable for some investors. It is essential you understand the nature and extent of your potential exposure to risk before opening a position. Carefully consider whether trading ETOs is appropriate in light of your investment objectives and financial circumstances.

The risks attached to investing in ETOs will vary in degree depending on the position taken. The Buyer (taker) of an ETO, whether it is a call option or a put option, has a known and limited potential loss. If an ETO expires with no value, the Buyer will lose the total value paid for the option (the premium), plus any transaction costs incurred. The Seller (writer) of an ETO may entail considerably greater risk. The premium received by the Seller of an ETO is both limited and fixed, however the Seller may incur substantially greater loss than that sum and indeed be exposed to unlimited losses in certain circumstances (e.g. sold naked call).

This PDS does not cover every aspect of risk associated with ETOs. For further information concerning risks associated with ETO trading please refer to the ASX booklet *Understanding Options Trading* and in particular the section entitled *Risks of options trading*.

### Risks of ETOs

In deciding whether or not you should trade ETO contracts, you should be aware of the following matters relating to risk:

- **Market risks.** As a general rule, movements in the value of the underlying share or index will significantly affect the value of ETOs (although the change may be at a different rate or in a different direction). Such movements may cause the value of the option to fall in price or become worthless at or before expiry. The value of the underlying share or index is affected by information that is announced to ASX. Accordingly, it is advisable that an investor in ETOs regularly reviews this information (which can be viewed on ASX's website).
- **Corporate activity.** Where corporate activity (e.g. takeover, bonus issue, rights issue) occurs in an underlying share, this will have an effect on the corresponding open ETO positions. Shaw has no control over the effect of the corporate activity on open ETO positions and cannot foresee the specific risk or outcome (including as to the manner of any adjustments made by ASX to the ETO at the time of the corporate activity in question).

- **Effect of leverage.** The high level of leverage that can be obtained by trading ETOs (due to the low level of initial capital outlay) can work against, as well as for, the investor. Depending on market movements, the use of leverage will magnify the level of losses, for instance, when compared with the same sized investment in the underlying share.
- **Limited life span.** ETOs have a limited life span. The value of the ETO erodes over its life and this accelerates as expiry approaches. You should consider the life span of the ETO to ensure it meets your investment needs. For instance, if your intent in purchasing an ETO is to hedge an existing position, you should ensure it has sufficient life span to achieve this objective.
- **Loss of premium for Buyers (takers).** The maximum loss in buying (taking) an ETO is the amount of premium paid plus transaction costs. If the option expires worthless, the Buyer will lose the total value paid for the option (the premium) plus transaction costs.
- **Unlimited loss for Sellers (writers).** While Sellers of ETOs earn premium income, they may also incur unlimited losses if the market moves against the option position. The premium received by the Seller is a fixed amount; however the Seller may incur losses greater than that amount. For example, the Seller of a call option has increased risk where the market rises and the Seller does not own the underlying shares. If the option is exercised, the Seller of the option is forced to buy the underlying shares at the current (higher) market price in order to deliver them to the Buyer at the exercise price. Similarly, where the market falls, the Seller of a put option that is exercised is forced to buy the underlying shares from the Buyer at a price above the current market price.
- **Loss of shares on exercise.** Sellers of call options where the Seller owns the corresponding amount of underlying shares will be required to deliver those shares at the exercise price should the option be exercised.
- **Loss of margin.** Sellers of options could sustain a total loss of the amount of the margin deposited with their broker or ASX clear if they close out their position or cannot maintain the position should the market adversely moves against the position. Margins and Additional Margins are discussed in more detail under section C of this PDS.
- **Margin Calls.** Your liability in relation to a written option contract is not limited to the amount of the margin paid. If the market moves against your position or margin levels are increased, you may be called upon to pay substantial additional margin on short notice to maintain your position, or upon settlement of contracts. If you fail to comply with a request for additional margin within the time prescribed, Shaw or its Clearing Participant may close out your position and you will be liable for any loss that might result.
- **Changes made by ASX Clear or Shaw which may impact on margins.** There may be certain changes which Shaw or ASX are required or authorised to make which have an impact on the margins required of you. These may include changes by ASX Clear as to whether it accepts certain collateral and how it is valued. Further, ASX Clear may change their method of calculating margins or Shaw may insist on you paying additional margins, including by way of a margin multiplier.
- **Close-out difficulties.** Under certain conditions, it may become difficult or impossible to close out a position. The relationship between the price of an ETO contract and the underlying share may become distorted. Examples of when this may happen include when there is a significant change in the price of the underlying share over a short period of time or if there is an absence or reduction in the number of willing Buyers and Sellers in either the ETO market or the underlying market. Additionally if the market is suspended or disrupted for any reason, this may also impair the ability to close-out the position. Similarly, events such as these in relation to the underlying market for the share may make it difficult for you to hedge or maintain your exposure under an open ETO contract.
- **ASIC and ASX powers.** ASIC, ASX and ASX Clear have discretionary powers in relation to the market and the operation of the clearing facility. They have power to suspend the market operation, or lift market suspension in options while the underlying shares are in trading halt if the circumstances are appropriate, restrict exercise, terminate an option position or substitute another underlying share, impose position limits or exercise limits or terminate contracts - all to ensure fair and orderly markets are maintained as far as practicable. These actions can affect your option positions.



- **Trading disputes.** Trades undertaken on the ASX may be subject to dispute. When a trade is subject to a dispute ASIC and ASX have powers, in accordance with their rules, to request that a broker amend or cancel a trade, which will in turn result in the ETO contract with the client being amended or cancelled. In some situations, ASIC and ASX may also exercise powers to cancel or vary, or direct the cancellation or variation, of transactions.
- **Trade amendments and cancellations.** Under Shaw's Client Agreement and Derivatives Client Agreement, we have the ability to amend or cancel trades. This could cause you to suffer loss or increase your loss. A trade executed on your behalf can also be amended or cancelled even where the trade has been confirmed to you.
- **System outages.** Trades undertaken on the ASX are traded on an electronic trading platform and cleared through ASX Clear, which relies on electronic systems. As with all such electronic platforms and systems, they may be subject to failure or temporary disruption. If the system fails or is interrupted Shaw will have difficulties in executing all or part of your order according to your instructions. Your ability to recover certain losses in these circumstances will be limited given the limits on liability imposed by the ASX, ASX Clear, Shaw and its Clearing Participant. Any market disruption may mean you are unable to deal in ETOs when desired and as a result you may suffer a loss. Common examples of disruption include a fire or other exchange emergency. The exchange could, for example, declare that an undesirable situation has developed in a particular ETO contract and suspend trading. Exchanges or Participants may also be able to cancel transactions under their rules.
- **Capital loss.** By trading in ETOs, you are exposed to the risk of losing capital. Investors should not risk more capital than they can afford to lose. While the level of risk exposure you wish to endure is ultimately a question for you, a good general rule is never speculate with money which, if lost, would alter your standard of living.
- **Default.** Shaw's Client Agreement and Derivatives Client Agreement set out various events of default. These include a failure by you to perform any obligation arising out of the opening, closing exercise or expiry of an Option including any call for margin. If you commit an event of default, Shaw or its Clearing Participant have extensive rights, including the right to enter into one or more

transactions to effect the close out of one or more of your open contracts, and the right to sell any financial products or other property of yours held by Shaw and its Clearing Participant and offset the proceeds of sale against any amounts you owe to Shaw or its Clearing Participant. These transactions are taken at your risk and you would be liable for any deficiency that may result.

### Risks of LEPOs

LEPOs are subject to all of the risk factors that affect standard ETOs as outlined above. However, the Buyer (taker) of a LEPO has a significantly higher risk profile than they would with a standard ETO because the premium is larger and will be closer to the full value of the underlying share than a standard ETO. The risk is however still limited to the full amount of the LEPO premium. Although the Buyer of a LEPO may only be required to outlay a relatively small amount of money 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.

Both Sellers (writers) and Buyers of LEPOs are required to pay margins to ASX Clear and positions are marked to market daily.

### Protection

When selling (writing) an ETO or LEPO, the initial income or premium may seem attractive but the downside may be unlimited. Risk minimisation strategies (protection) should be employed to mitigate losses that may arise from an adverse margin movement or adverse market condition. Whilst this PDS provides information about the risks, characteristics and benefits of ETOs and LEPOs generally, investors should inform themselves and if necessary obtain advice about the specific risks, characteristics and benefits of the ETO or LEPO they intend to trade.

## F. Costs

### What are the costs?

The costs include:

- **Brokerage and exchange fees as relates to ETOs.** Set out in Part 2 of this PDS.
- **Premium.** If you are the Buyer (taker) of an ETO, you will be required to pay a premium in connection with the purchase of the ETO contract. If you are the Seller (writer) of an ETO, you will be entitled to receive a premium in connection with the sale

of the ETO contract. For further detailed information on the premium in respect of an ETO contract, refer to the section Option Pricing Fundamentals of the ASX booklet Understanding Options Trading and also the ASX's options calculator available at [www.asx.com.au](http://www.asx.com.au).

- **Margin and collateral.** If you are the Seller of an ETO contract, you will be required to provide margin, and in certain circumstances collateral, to ASX Clear in accordance with the terms of your Client Agreement and Derivatives Client Agreement. ASX Clear calculates margin amounts using a margin methodology system, currently ADMS (ADMS). For further detailed information on margin and collateral requirements, refer to the ASX Margins booklet available at [www.asx.com.au](http://www.asx.com.au).
- **Additional margin.** Details of any additional margin requirements Shaw may call over that required by ASX Clear are as discussed under the headings Margins and Additional Margins in section C of this PDS.

## Liability

For Buyers (takers), trading options may result in a loss situation if the options are trading *out of the money* (for call options where the exercise price is higher or lower for put options, than the current market price), however the amount of the loss for a taker is limited to the premium paid. The liability of a Seller (writer) is potentially unlimited (naked position).

## Direct Debit and Credit Agreement

To ensure settlement of transactions and margin requirements, Shaw and its Clearing Participant may require that you authorise Shaw and its Clearing Participant to pay funds directly into, or take funds directly from your designated bank or cash management account. See the Client Account Opening Form and the Direct Debit and Credit Agreement in the Client Account document for further information.

## G. Your Instructions

If you wish to instruct Shaw to enter into a transaction in Options on your behalf, you must instruct us to do so either in writing or verbally. You can give your instructions in person, by telephone, facsimile, post or via email to your Adviser. Instructions sent by facsimile, post or email will not be deemed received until your Adviser has confirmed receipt or placed the order. It is essential that you provide your Adviser with clear instructions. Shaw will

execute your order(s) directly into the market in accordance with the relevant Market Integrity Rules.

You may authorise a third party to act on your account by completing Section G of the Client Account Opening Form or by completing an Authority to Operate a Shaw Account form. You may also authorise a third party to act on your account by giving Shaw a certified copy of an effective Power of Attorney. We will assume that all instructions given on your behalf pursuant to any authority is valid until we are advised in writing that the authority has been withdrawn. A third party authorised to act on your behalf will not be entitled to direct that your shares be used as third party collateral for another client's account or to make payments on your account to anyone other than you, unless empowered to do so by Power of Attorney.

Most orders are executed shortly after receipt, however there is no guarantee that your order will be executed within any given time period. The time taken to execute your order will depend upon a number of factors, including your price instructions, the market, the size and complexity of the order. Your Adviser will tell you if there are any unexpected delays in executing your order. Once your order is executed, you will receive a confirmation from Shaw's Clearing Participant detailing the transaction undertaken.

## H. Tax Implications

### Warning

The information below is based on existing Australian tax law and established interpretations as at the date of this PDS. It is intended as a brief guide only and does not cover every aspect of taxation related with the use of ETOs. The information applies to Australian resident investors only. It is important to note that your tax position when trading ETOs will depend on your individual circumstances, in particular whether you are trading on a revenue or capital account or whether you are subject to the Taxation of Financial Arrangements (TOFA) rules, contained in Division 230 of the Income Tax Assessment Act 1997.

The taxation of Options can be complex and may change over time. Accordingly, we recommend you seek professional tax advice before entering into or disposing of an ETO. Shaw and its employees are not able to give tax or legal advice. You should not rely solely on the information in this PDS when making decisions about your investments.

In order to determine the taxation consequences of any transactions, you must first determine whether the TOFA rules apply.

## TOFA

Depending on the relevant circumstances a taxpayer may be subject to the TOFA rules. ETOs covered by this PDS are expected to qualify as financial arrangements and therefore the TOFA rules are likely to have a significant impact on the taxation of ETOs. Briefly, the rules:

- generally deem gains and losses from financial arrangements to be on revenue account
- impact on the timing of the recognition of the gains and losses, and
- may cause unrealised gains and losses to become subject to tax.

Below is a brief summary of the rules. The TOFA rules are complex and it is strongly recommended that taxpayers seek specific tax advice on the application of the rules to their dealings.

## Application

Generally, the TOFA rules will not apply to individuals, small superannuation funds and small securitisation vehicles. However, the rules will apply to these taxpayers if the financial arrangement involves substantial tax deferral. The TOFA rules do apply to most corporate taxpayers provided certain turnover and other tests are met.

## Impact

The TOFA rules allow taxpayers to make a number of elections that determine how gains and losses from financial arrangements will be taxed. The elections are generally irrevocable. If taxpayers do not make any elections other than to enter into the TOFA regime early, the rules should treat most gains and losses from ETOs on a realisation basis. Gains from exercising ETOs will not contribute to the cost base of the asset received upon the exercise. However, the accruals method may apply in some cases to spread the recognition of some gains and losses over the life of the ETO. The fair value and financial report elections include in the tax calculation, gains and losses from financial arrangements that are reflected in the profit and loss statement (e.g. financial arrangements that for accounting purposes are classified as held for trading or designated as valued at fair value through profit and loss). This means that unrealised gains and losses may be subject to tax. If you made a valid fair value or financial

reports election and it did not cease to apply to you, the gains and losses from ETOs for tax will be aligned to the gains and losses recognised in the profit and loss for accounts. The hedging election allows tax matching of the gains and losses from the underlying hedged item. The matching is both timing (i.e. over the time the underlying item is held) and character (i.e. will take on tax character, revenue or capital, of the underlying item). The arrangements subject to the hedging election will not be subject to the fair value or financial reports elections, even if those are made. If you made a valid hedging election and an ETO qualifies for the hedging election treatment, the gains and losses from the ETO will be matched to the gains and losses from the underlying hedged item. The conditions for the hedging election are complex and include documentation and hedge effectiveness requirements.

## Revenue account

For Australian resident investors that are a Seller (writer) of an option in the ordinary course of business or the option has been sold over an underlying revenue asset, the option will be treated as being on revenue account.

The premium received by the Seller of the option will be assessable on a due and receivable basis. Where any premium is credited to the Seller's Client account the amount will still be assessable on this basis. Any subsequent margin calls are not deductible when they are deposited by the Seller into their Client account. These margins will merely reduce any net position of the Seller upon the closeout, settlement or exercise of the option by the Buyer (taker). Where interest is received by the Seller on the margins held in their Client account, this is required to be included in the Seller's assessable income.

A Buyer will generally hold an option on revenue account when it is held or traded in the ordinary course of business, or the option is used to hedge an underlying revenue asset. Where this is the case, any premium paid by the Buyer is generally regarded as being deductible on a due and payable basis. This will generally be at the time the option is entered into. There are no further tax implications where an option on revenue account lapses. However, where an option on revenue account is exercised, the option strike price will form part of the acquisition cost or disposal proceeds for the underlying asset in question. Alternatively, where the option is closed-out prior to its expiration, any gain or loss on the option position will be treated as assessable or deductible as the case may be.

## Capital account

Where a Seller (writer) sells (writes) an option over an underlying capital transaction, the option will be held on capital account. Consequently, any income tax implications will be determined in accordance with the Capital Gains Tax (CGT) provisions. The premium received by the Seller of the option will give rise to an assessable capital gain on a received or a receivable basis. Where any premium is credited to the Seller's ASX Clear account the amount will still be assessable on this basis. Any subsequent margin calls will merely reduce any net position of the Seller upon the close-out, settlement or exercise of the option by the Buyer (taker). Where interest is received by the Seller on the margins held in their ASX Clear account, this is required to be included in the Seller's assessable income.

Where a call option is exercised, the option premium and the proceeds on the sale of the underlying asset should be treated as a single transaction. Accordingly, both the premium and the proceeds received will form part of the Seller's capital proceeds for CGT purposes. This may have practical implications for the Seller of options where the premium and sale proceeds are received in different financial years.

Where a put option is exercised, the option premium paid and exercise price will form part of the cost base of the underlying asset for the investor. Accordingly, both the premium and the strike price paid will form part of the Seller's cost base of the underlying asset for CGT purposes. This may have practical implications for the Seller of options where the premium is received in a different financial year to the payment of the strike price and acquisition of the underlying capital asset.

A Buyer will generally hold an option on capital account where an underlying capital transaction is being hedged. Consequently, any income tax implications will be determined in accordance with the CGT provisions. At the time the premium is paid, there will be no taxation consequences for the Buyer in respect of any premium paid for options that are held on capital account. When an option on capital account lapses the Buyer will realise a capital loss equal to the amount of the premium paid. When an option is settled or closed out, the Buyer will realise a capital gain or loss depending on the amount paid (being the premium plus any incidental costs) for the option and the amount received on settlement.

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

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

## LEPOs

From an income tax perspective there are no specific legislative rules dealing with LEPOs. The taxation consequences of investing in LEPOs will be determined by having regard to the respective circumstances of the investor according to general tax principles. Generally, the taxation consequences of investing in LEPOs will be the same as those outlined above. However, an alternate view exists that is again essentially the same as that outlined above, except that the relevant point for determining any taxation consequences does not occur until the LEPOs are closed out, exercised or expire.

## Goods and Services Tax

The purchase and disposal of ETOs over shares and any index by investors is not subject to goods and services tax (GST) other than in respect of any brokerage or other transactional costs.

## I. Dispute Resolution System

Shaw is committed to a high level of client service and responding to any concerns or complaint promptly, fairly, consistently and in a professional manner. If you have any concerns about the services we provide to you please take the following steps:

- Contact your Adviser and discuss the complaint directly.
- If you do not feel comfortable discussing the complaint with your Adviser or your complaint is not satisfactorily resolved within 2 working days, please telephone Shaw and ask to speak with our Compliance Officer. We suggest you put your complaint in writing at this time so that the issues are fully documented and understood by the parties. Your complaint should be addressed to:

Shaw and Partners Limited  
Attn: Compliance Officer  
GPO Box 3604  
Sydney NSW 2001  
Fax: +61 2 9232 1296

- Every effort will be made to resolve your complaint within 45 days. If you are still not satisfied with the outcome, you may take your complaint to an external dispute resolution scheme. Shaw is a member of the



scheme operated by the Australian Financial Complaints Authority (AFCA). You should write to:

Australian Financial Complaints Authority  
GPO Box 3  
Melbourne VIC 3001

Phone: 1800 931 678 (free call)  
Website: [www.afca.org.au](http://www.afca.org.au)  
Email: [info@afca.org.au](mailto:info@afca.org.au)

- You may wish to consult ASIC in relation to your complaint. ASIC's website contains information on complaining about companies and people and describes the types of complaints handled by ASIC. ASIC's details are as follows:

Tel: 1300 300 630  
Email: [infoline@asic.gov.au](mailto:infoline@asic.gov.au)  
Web: [www.asic.gov.au](http://www.asic.gov.au)

- You may wish to consult ASX. You can write to:

Compliance  
ASX Limited  
20 Bridge Street  
Sydney NSW 2000

## Part 2 of the PDS: Schedule of Fees

This document forms part of the PDS. This document should be read in conjunction with Part 1 of the PDS. The following information relates to the way we charge for transacting in ETOs for you, associated costs and the way our advisers are remunerated.

### Brokerage

The specific rate of brokerage can be negotiated with your Adviser and will depend on factors such as the level of service, the type of advice, the size and complexity of the transaction and the frequency of any transactions on your Client Account.

Brokerage is calculated as a percentage of the premium paid or received. As at the date of this PDS a minimum fee of \$125 (plus GST) is applied to each transaction in ETOs, but this can be negotiated with your Adviser. By way of example, if there is brokerage of 1.5% and the premium paid or received was \$10,000, the brokerage exclusive of GST would be \$150. The total fee charged would be \$165 inclusive of GST.

The rate of brokerage is usually less than 2.5%. The actual amount of brokerage payable by you will be disclosed in the confirmation for the transaction but called commission and noted under the heading *Commission Rate and Value*.

### GST

An amount equal to the amount of GST will be charged to you on all brokerage and fees, currently at the rate of 10%.

### Interest

Shaw's Clearing Participant will maintain a trust account to hold funds which you have provided to settle transactions we have undertaken on your behalf. Shaw's Clearing Participant will pay to Shaw interest on the trust account, at the Reserve Bank cash rate less an administration fee of 75 basis points (0.75%).

ASX Clear will pay interest to Shaw's Clearing Participant on cash lodged as collateral to cover ASX Clear margins. Any interest paid by ASX Clear to Shaw's Clearing Participant will be at the Reserve Bank cash rate less 65 basis points (0.65%). Shaw's Clearing Participant will pass on the amount received from ASX Clear to Shaw. Shaw will pay that amount to clients less an administration fee of 35 basis points (0.35%) where a Client Account receives more than \$25.00 of interest per month as paid by ASX Clear to Shaw's Clearing Participant. This interest will appear on your monthly statement.

### ASX Clear fees

ASX Clear charges a registration fee of \$0.13 per equity option contract, plus GST. If you exercise an ETO or are assigned on an ETO, ASX Clear charges an exercise fee of \$0.05 per contract, plus GST.

In the case of index options, ASX Clear charges \$0.35 per contract, plus GST. The fee is the same for both the registration and exercise fees.

The exact cost of your transaction will be disclosed on your confirmation.

### Tax deductibility

Some fees that we charge may be tax deductible. You must confirm this with your tax adviser or accountant in relation to your specific situation.

### Fail fees

Fail fees are charged as a percentage of the trade value or margin call, per day they remain outstanding. For any trade value or margin call greater than \$50,000, Shaw will charge a late settlement fee of 0.04% of the total outstanding per day (due to provision of funding by Shaw) plus an administration fee of \$50.00, plus GST. If the trade value or margin call is less than \$50,000, a minimum charge will apply of \$30.00 per day, plus GST.

## **Margin requirements**

Margins are discussed in Part 1 of this PDS, under the heading Margins in section C.

## **Remuneration**

Your Adviser is either an independent contractor to Shaw or an employee of an independent contractor to Shaw. Your Adviser, or their employer, is remunerated wholly on a commission basis by retaining between 35% and 50% of the brokerage you generate, paid monthly.

Shaw employees and directors receive salaries based on performance criteria and other benefits from Shaw, not you.

## **Referral fees**

Where you have been referred to us by a third party (such as a financial planning group or accountant), we may pay an introductory fee or commission rebate in relation to the referral. All introductory fees or commission rebates are negotiated with the third party on a case by case basis and may be up to 75% of our charges. Please refer to the FSG or SOA provided by the relevant third party for more detailed information on payments (if any) payable. These fees are not in addition to any charges payable by you and are included in your brokerage charge.



# How to Read Your Statements

Should you choose to transact in ETOs, you will receive a number of different statements including a:

- Trading, Position and Financial Statement, which includes a confirmation of any transaction or cash movement on your Client Account from the previous business day, together with a report of the open positions and financial details of your Client Account
- Position and Financial Statement, which is a monthly report of any current positions open on your Client Account, together with a statement of the financial details relating to your dealings in ETOs
- Current Account Statement (Financial Summary), which is a monthly report of the financial transactions on your Client Account during the month
- Collateral Holdings Statement, which is a monthly report that lists any shares or bank guarantees lodged as collateral at ASX Clear on your Client Account as at the last business day of the month, and
- Notification Statement, which is a monthly report only generated in circumstances where you have a position that is exercised, assigned or expires or where an adjustment has been made to your positions by ASX during the month.

Information contained in one statement may be replicated in another statement. All statements only relate to your dealings and cash movements in Derivatives.

## Important to Understand

It is important that you read and understand the contents of your statements. You must advise Shaw immediately if you do not receive a statement or there are any discrepancies in any statements you do receive by calling Shaw Compliance on +61 2 9238 1238. Below is a list of key terms to assist in your understanding of each statement. If you require any further assistance, please contact your Adviser.

Key Words	Description
<i>Trading Confirmation</i>	This section details all option positions bought or sold on your Client Account that day.
Month	The month and year in which the position expires. Also see Expiry Date.
Strike	The exercise price or level.
Put	A put option.
Call	A call option.
Buy	The number of contracts bought will be listed in this column.
Sell	The number of contracts sold will be listed in this column.
Price	The premium paid to you per contract for selling a position, or paid by you per contract for buying a position.
Trade Date	The date the position was bought or sold.
Expiry Date	The last day that the option series bought or sold may be traded.
Fees, Rate and Value	The registration fee charged by ASX Clear per contract. Total value of the registration fee charged by ASX Clear per series.
Commission, Rate and Value	The brokerage fee charged by Shaw for the transaction.

<b>Trade Value Posted</b>	Total to be paid or received per series.
<b>Trading Total</b>	The net total of all positions traded that day including fees, brokerage and GST.
<b>Liquidation Advice</b>	This section details any positions that have been exercised, assigned or closed on your Client Account.
<b>Premium Value</b>	The total premium paid to buy, or received to sell, a position.
<b>Cash Postings</b>	Any money transferred to or from your Client Account and any adjustments for late settlement fees, commissions or interest.
<b>Current Open Position Details</b>	Lists all positions that currently remain open on your Client Account.
<b>Market Price</b>	The prevailing market price per contract as relates to the position, quoted by ASX at the close of trading.
<b>Market Value</b>	An estimate of the total value if each position were closed. A sold position, whilst shown as a credit, is an estimate of the cost (premium) to be paid by you to close the position. A bought position, whilst shown as a debit, is an estimate of the premium to be paid to you should you close the position.
<b>Unrealised Profit &amp; Loss</b>	An estimate of the current unrealised profit or loss on each position by deducting the closing market price from the actual traded price for that position.
<b>Financial Details</b>	A summary of the financial details relating to any options or cash transactions on your Client Account at the close of the trading day.
<b>Brought Forward Balance</b>	The cash balance as relates to options brought forward from the previous business day on your Client Account.
<b>Premiums – Buy</b>	The total of all premiums paid by you for that day.
<b>Premiums – Sell</b>	The total of all premiums received by you for that day.
<b>Cash In/Out</b>	Any cash that has been transferred to or from your Client Account in relation to options for that day.
<b>Carried Forward Balance</b>	The net value of the debits (fees, premiums-buy, brokerage, GST and cash out) and credits (premiums–sell and cash in) coupled with your Brought Forward Balance.
<b>Initial Margin</b>	The net margin applied to your open positions calculated by ASX Clear using ADMS together with any Additional Margin applied to your Client Account. ASX Clear recalculates margins on a daily basis.
<b>Utilised Collateral</b>	The dollar value of any shares lodged at ASX Clear on your behalf as collateral to cover your initial margin. ASX Clear values those shares by using the previous business day's closing price and applying a haircut of approximately 30% (i.e. only 70% of the value of the shares will be used to meet the initial margin requirement)
<b>Cash to Cover Margins</b>	The margin requirement not met. If your margin requirement is met in full it will register as nil.
<b>Excess/Shortage</b>	The net total of any margin required (shortage) or in excess of the initial margin requirements of ASX Clear, coupled with your Carried Forward Balance.
<b>Overall Shortage</b>	Any shortage on your Client Account due to a margin requirement or an outstanding transaction. You will be required to pay the shortage by 9.00am of the next business day, either in cash for the trading debit or by providing additional collateral to meet the margin requirement.
<b>Overall Excess</b>	Any excess on your Client Account due to your lodged collateral being in excess of any margin requirement or as a result of a transaction credit. This amount will be paid to you in accordance with your instructions.
<b>Your cost to close the positions above</b>	Estimates the amount you would need to pay (DR) or would receive (CR) were you to close all option positions on your Client Account (reflecting the Market Value).

## Estimates

Each statement relies upon theoretical prices determined by ASX Clear, provided at the end of each trading day. Accordingly only an estimate may be provided of the cost to close positions and the current unrealised profit or loss. The actual cost to close and profit or loss will be solely determined by the market and your investment decisions, with all transactions being subject to transactional costs, as discussed in Shaw's PDS.

## Example Extracts

Five extracts from different sample *ETO Trading Statement* provide examples of the types of information your statements may contain should you trade in Derivatives, together with an explanation of that information. All entries on statements you receive will be in Australian dollars, unless otherwise stated.

TRADING CONFIRMATION									
Trading									
Month	Strike	Buy	Sell		Trade Price	Trade Date	Expiry Date		Traded Value Posted (\$)
<b>Australian Stock Exchange</b>									
<i>BHP BHP Equity options (100 Shares per lot; American style options)</i>									
Aug-12	32.5	Put	25	Open	0.9400	06/08/2012	30/08/2012		2,350.00 CR
GST on fees and commission									
<b>TOTAL (inclusive of GST):</b>									<b>\$2,208.92 CR</b>

The excerpt *Trading Confirmation* above states that the client has sold 25 BHP put contracts with a strike price of \$32.50 at \$0.94 per share. The total premium paid to the client for the position opened was \$2,350, being 25 x 100 x \$0.94 (25 contracts with 100 shares per contract). The client is now at risk, should the position be exercised, to buy 2,500 BHP shares at \$32.50 per share until the position is closed or expires. The fees and commission (brokerage) related to the transaction are set out to the right. This excerpt states that the BHP position sold was subject to ASX Clear registration fees of \$0.13 per contract (25 x \$0.13) and a flat brokerage rate of \$125.00 charged by Shaw. Accordingly, the total payable to the client for opening the BHP position less fees and commission was \$2,208.92 (\$2,350 - \$3.58 - \$137.50) as identified as the Total under the heading Traded Value Posted in the first extract.

TRADING CONFIRMATION				
Trading				
Month	Rate	Fees	Commission	
		Value	Rate	Value
<b>Australian Stock Exchange</b>				
<i>BHP BHP Equity options (100 Shares per lot; American style options)</i>				
Aug-12	0.13	3.25 DR		125.00 DR
GST on fees and commission		0.33 DR		12.50 DR
		<b>\$3.58 DR</b>		<b>\$137.50 DR</b>

LIQUIDATION ADVICE							
Matchouts							
Month	Strike	Buy	Sell	Trade Price	Trade Date	Premium Value (\$)	
<b>Australian Stock Exchange</b>							
<i>ASX ASX Equity options (100 Shares per lot; American style options)</i>							
Aug-12	32.00	Call	100	0.2410	25/05/2012	2,410.00 DR	
Aug-12	32.00	Call	100	0.1800	06/08/2012	1,800.00 CR	
							<b>\$610.00 DR</b>

The excerpt *Liquidation Advice* above states that the position of 100 ASX call contracts with a strike price of \$32.00 bought on 25 May 2012 at \$0.241 per share was closed out on 6 August 2012, with the sale of the same position at \$0.18 per share, being a realised loss of \$610.00.

## CURRENT OPEN POSITION DETAILS

Month	Strike		Buy	Sell	Trade Price	Trade Date	Expiry Date	Traded Value (\$)	Market Price	Market Value (\$)	Unrealised P&L (\$)
<b>Australian Stock Exchange</b>											
<i>BHP BHP Equity options (100 Shares per lot; American style options)</i>											
Aug-12	30	Put	25		1.145	27/06/2012	30/08/2012	2,862.50 DR	1.50	3,750.00 DR	887.50 CR
								<b>2,862.50 DR</b>		<b>3,750.00 DR</b>	<b>887.50 CR</b>
<i>STO STO Equity options (100 Shares per lot; American style options)</i>											
Dec-12	14.2	Put		25	3.350	06/08/2012	20/12/2012	8,375.00 CR	2.36	5,900.00 CR	2,475.00 CR
								<b>8,375.00 CR</b>		<b>5,900.00 CR</b>	<b>2,475.00 CR</b>
<b>TOTAL</b>								<b>\$5,512.50 CR</b>		<b>\$2,150.00 CR</b>	<b>\$3,362.50 CR</b>

The excerpt *Current Open Position Details* above states that there are two positions currently open on the sample Client Account.

The first open position is 25 BHP put contracts with a strike price of \$30.00 bought at \$1.145 per share. The premium paid by the client to open the position was \$2,862.50 (being 25 x 100 x \$1.145). At close of trade the estimated theoretical price calculated by ASX for that option series is \$1.50. Accordingly if the client chose to close the position, they would receive an estimated premium of \$3,750.00 (being 25 x 100 x \$1.50), which would be a theoretical profit of \$887.50 (Market Value less the Traded Value) less any transactional costs. Until the position is closed or expires on 30 August 2012 the client may elect to exercise the right to sell 2,500 BHP shares at \$30.00 per share.

The second open position is 25 STO put contracts sold with a strike price of \$14.20 at \$3.35 a share. The premium received by the client to open the position was \$8,375.00 (being 25 x 100 x \$3.35). At close of trade the estimated theoretical price calculated by ASX for that option series is \$2.36. Accordingly if the client chose to close the position, they would pay an estimated premium to buy the position back of \$5,900.00, (being 25 x 100 x \$2.36), being a theoretical profit of \$2,475.00 (Traded Value less the Market Value) less any transactional costs. Until the position is closed or expires on 20 December 2012, the client is at risk of having to buy 2,500 STO shares at \$14.20 per share.

## FINANCIAL DETAILS

	\$
Brought Forward Balance	16,043.68 CR
Fees – Registration Standard	26.65 DR
GST on Fees - Registration Standard	2.68 DR
Premiums – Buy	15,355.00 DR
Premiums – Sell	10,677.50 CR
Commissions – Standard	322.03 DR
GST on Commission – Standard	32.21 DR
Cash In/Out	2,399.96 CR
<b>Carried Forward Balance</b>	<b>13,382.57 CR</b>
Initial Margin	14,453.82 DR
Utilised Collateral	14,453.82 CR
Cash to Cover Margins	0.00
<b>Excess/Shortage</b>	<b>13,382.57 CR</b>
<b>Overall Excess</b>	<b>13,382.57 CR</b>
<b>Your cost to close the position listed above</b>	<b>10,319.00 DR</b>

The excerpt *Financial Details* above states that the cash balance from the prior business day was \$16,043.68. As at close of trade the client had been charged ASX Clear registration fees of \$29.33 (incl. GST) and Shaw has charged brokerage of \$354.24 (incl. GST) for positions bought or sold that day. The client will be paid the next business day premiums of \$10,677.50 for positions sold that day. The client is to pay \$15,355.00 the next business day for positions bought that day. There was a cash movement into the Client Account of \$2,399.96 that day. The total sum of the prior cash balance, premiums, fees, brokerage and cash movements is \$13,382.57 as at the close of trade. ASX Clear requires margin of \$14,453.82 to hold the current open risk positions on the Client Account as calculated using ADMS, together with any additional margin applied by Shaw. The client has lodged collateral in the form of shares or a bank guarantee that meets the initial margin identified, accordingly there is a \$0.00 (nil) requirement to provide cash to cover the margin. In accordance with the client's standing instructions \$13,382.57 will either be paid to the client's bank account or paid into trust. While the client's daily reconciliation results in a payment in their favour, their current open positions carry a theoretical obligation of \$10,319.00 to close all option positions on the Client Account (plus any transactional costs).

# Explanation of Agreements and Authorisation

In order to transact in Derivatives with Shaw, there are a number of different agreements you must enter, which are:

- **First Part** – Derivatives Agreement between you and Shaw
- **Second Part** – Derivatives Clearing Agreement between you and Shaw's Clearing Participant, and
- **Third Part** – Deed of Guarantee and Indemnity (company clients only)

(together, your Derivatives Client Agreement).

Should you grant the authority as provided in the Registered Holder Collateral Cover Authorisation (Authorisation) on pages 6 – 7, it will also form part of your Derivatives Client Agreement.

The Derivatives Client Agreement supplements the Client Agreement entered when establishing your Client Account. Set out below is a brief explanation of the importance of each Agreement to you.

## First Part – Derivatives Agreement

The Derivatives Agreement sets out the terms and conditions most relevant to the execution of your orders and the provision of advice to you by Shaw or your Adviser with respect to Derivatives.

## Second Part – Derivatives Clearing Agreement

The Derivatives Clearing Agreement sets out the terms and conditions upon which Shaw's Clearing Participant settles transactions and margin requirements related to Derivatives on your Client Account.

Shaw has outsourced certain non-advisory functions to Pershing Securities Australia Pty Limited (Shaw's Clearing Participant). The functions outsourced are administrative in nature only and do not affect your relationship with your Adviser. Instead of paying Shaw or receiving funds from Shaw, you pay funds to, and receive funds from Shaw's Clearing Participant, because it settles the transactions undertaken by

Shaw on market for you and any margin requirements relating to your Client Account. This arrangement is called third party clearing. As a Participant of ASX Clear, Shaw's Clearing Participant is bound by ASIC's Market Integrity Rules and the ASX Clear Operating Rules.

## Third Part – Deed of Guarantee and Indemnity

If your Client Account is held in the name of a company, Shaw requires that the directors guarantee the obligations of the company, because dealing in Derivatives can involve substantial ongoing obligations.

## Registered Holder Collateral Cover Authorisation

The Authorisation allows Shaw's Clearing Participant to undertake, in accordance with your instructions, a paperless lodgement of shares on your behalf with ASX Clear to meet margin requirements. The shares lodged then serve as collateral against the margin required to maintain your open positions. You can otherwise meet any required margin by providing cash or a bank guarantee. The disadvantages of providing cash include the poor level of interest offered, if any, which will be paid on the sum provided to ASX Clear. The disadvantages of providing a bank guarantee include the time, cost and administration of obtaining the guarantee. Each choice of collateral type has advantages and disadvantages which can be discussed with your Adviser.



# Derivatives Client Agreement

## First Part – Derivatives Agreement

### 1. Interpretation

- 1.1 In this Derivatives Agreement (Agreement), unless the context otherwise requires, words and expressions have the meaning provided in the Market Rules and Clearing Rules.

**ASX Clear** means ASX Clear Pty Limited ABN 48 001 314 503.

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

**ASX Derivative Products** means Derivatives that are traded on the ASX.

**Clearing Rules** means the ASX Clear Operating Rules.

**Market Rules** means the ASX Operating Rules or ASIC Market Integrity Rules as applicable.

**Your personal circumstances** has the meaning given to it in sub-clause 3.1.

### 2. General

- 2.1 This Agreement will apply to all dealings between you and Shaw in relation to ASX Derivative Products. This Agreement supplements, and should be read together with, the terms and conditions set out in the Client Agreement. By agreeing to be bound by this Agreement, you:
- acknowledge that you have read and understood Shaw's current Client Agreement, available from your Adviser or at [www.shawandpartners.com.au](http://www.shawandpartners.com.au)
  - agreed to be bound by the terms and conditions of the Client Agreement, and
  - hereby warrant in favour of Shaw at the date of this Agreement and each time you instruct Shaw to enter into a contract in relation to ASX Derivative Products, each of the warranties set out in the Client Agreement.

If you have not received the Client Agreement, do not sign the Derivatives Client Account Form and contact Shaw immediately.

- 2.2 You and Shaw agree that the terms of our relationship, in respect of ASX Derivatives Products and any dealings between us concerning ASX Derivatives Products are subject to, and we are bound by, the Corporations Act, the Market Rules, the Clearing Rules and the procedures, customs, usages and practices of ASX, ASX Clear and their related entities, as amended from time to time, insofar as they apply to ASX Derivatives Products.
- 2.3 You warrant to Shaw that you will comply with the terms of the Derivatives Clearing Agreement with Shaw's Clearing Participant in the Second Part. The acknowledgements, agreements and warranties that you give in the Derivatives Clearing Agreement you also give to Shaw as if it were the party referred to in that agreement as Shaw's Clearing Participant. You agree that Shaw may enforce any of the terms of the Derivatives Clearing Agreement against you as if it were the party referred to as Shaw's Clearing Participant.
- 2.4 Before accepting any orders to enter into transactions in ASX Derivative Products for you, pursuant to this Agreement Shaw's Clearing Participant will open an account with ASX Clear in your name in accordance with the Clearing Rules.

### 3. Product Disclosure Statement and ASX Educational Booklet

- 3.1 You acknowledge that:
- you have read and understood the Product Disclosure Statement for Exchange Traded Options (PDS) provided with this Agreement, and
  - you have given consideration to your objectives, financial situation and needs (your personal circumstances) and have formed the opinion that dealing in ASX Derivative Products is suitable for your personal circumstances.

- 3.2 You acknowledge that you have received and read either:
- (a) a hard copy of the current educational booklet published by ASX in respect of each ASX Derivative Product (*Educational Booklet*); or
  - (b) an electronic copy of the *Educational Booklet* on the ASX website at [www.asx.com.au](http://www.asx.com.au) or at Shaw's website at [www.shawandpartners.com.au](http://www.shawandpartners.com.au).
- 3.3 The *Educational Booklet* is authored by ASX and Shaw does not warrant the accuracy or completeness of the information in the *Educational Booklet*.
- 3.4 You should only transact in Derivatives if you understand the nature of the product and the extent of your exposure to risk. A thorough review of the PDS prior to placing any trades is essential. If you do not understand the PDS, or an aspect of the PDS, you agree that you will immediately advise Shaw of this fact in writing. You acknowledge that Shaw, in providing advice and transacting in Derivatives on your behalf, relies on you having read and understood the PDS and the *Educational Booklet*.
- 3.5 Notwithstanding that the PDS need only be provided to clients classified as *retail clients* under the Corporations Act 2001 (Corporations Act) and not to wholesale clients, you give the acknowledgements set out in this clause regardless of your classification.

## 4. Your Instructions

- 4.1 Shaw is not required to act in accordance with your instructions where to do so would constitute a breach of the Clearing Rules, the Market Rules or the Corporations Act.
- 4.2 You must instruct Shaw if you want to exercise an ASX Derivative Product, which is an option. However, you acknowledge that Shaw will automatically exercise at expiry any options in your Client Account which are \$0.01 or more in the money by reference to the prices disseminated by ASX Clear in the Derivatives Clearing System, unless you instruct Shaw not to exercise the position prior to 4.30pm on the relevant expiry day.
- 4.3 You agree that, because of the nature of the ongoing obligations associated with open Derivative positions, you will be contactable at all times when you have open Derivative positions.

## 5. Dealing as Principal

- 5.1 You acknowledge that Shaw may, in certain circumstances permitted under the Corporations Act, the Clearing Rules and the Market Rules, take the opposite position in a transaction in an ASX Derivative Product, either acting for another client or on its own account or on the account of an associate of Shaw. Shaw may from time to time undertake transactions on its own behalf through other Market Participants. You acknowledge that in some circumstances such orders may compete with the orders of Shaw's clients indirectly.
- 5.2 Notwithstanding that Shaw may act in accordance with the instructions of, or for your benefit, you acknowledge that any contract in ASX Derivative Products arising from any order submitted to ASX is entered into by Shaw as principal.

## 6. Shaw May Call for Funds or Security

- 6.1 Shaw may call for payment of money, or the provision of other security, to Shaw or its Clearing Participant that Shaw considers, in its absolute discretion, appropriate in connection with the obligations incurred by Shaw or its Clearing Participant in respect of contracts in ASX Derivative Products entered into on your account. The time by which you must pay any amount called, or provide security, is of the essence and if no other time is stipulated in this Agreement, you must pay the amounts, or provide the relevant security within 24 hours of the call for payment. You acknowledge that the amount called may be in excess of the margin requirements established by ASX Clear, and that the call may be made by Shaw and/or by its Clearing Participant either by notifying you in writing (including by email or electronic statement) or verbally.
- 6.2 You agree that in order to receive ongoing statements and requests for provision of funds or securities in a timely manner, you will provide Shaw with the details of your email address. Shaw may waive compliance with this sub-clause at its discretion.
- 6.3 You authorise the use of any securities Shaw holds as sponsor on CHESSE, to be lodged with or otherwise made available to ASX Clear, as security for deposits or margins payable to ASX Clear in respect of your account.
- 6.4 If you have provided an authority, either to Shaw or to its Clearing Participant, to directly debit a bank account, you authorise the relevant party to automatically debit funds from that nominated account to satisfy your

obligations to settle with, pay fail fees and interest to, and indemnify Shaw and its Clearing Participant hereunder.

- 6.5 You warrant that any money or security which you provide to Shaw, Shaw's Clearing Participant or ASX Clear under this clause, is and will remain free from any encumbrances.
- 6.6 You acknowledge that you will not be entitled to the return of any money or security provided under this clause until, in the reasonable opinion of Shaw, Shaw and/or its Clearing Participant have no further actual or contingent liability in connection with any contract in ASX Derivative Products entered into by Shaw on your behalf.

## 7. Settlement

- 7.1 Unless Shaw or its Clearing Participant holds sufficient monies or financial products on your behalf to settle a transaction, you must pay any amount and deliver any financial products, which you are liable to pay or deliver in connection with a transaction in an ASX Derivative Product by 9:00am on the business day following the date of entry into the transaction.
- 7.2 Notwithstanding the above sub-clause, Shaw may notify you verbally or in writing of a shorter period for payment or delivery and you agree to meet any such shortened deadline.
- 7.3 You acknowledge that:
- (a) any money paid to Shaw or its Clearing Participant in connection with a transaction contemplated by this Agreement, will be paid into a trust account or clients' segregated account maintained in accordance with section 981B of the Corporations Act, which may be combined with the monies of other clients of Shaw and Shaw's Clearing Participant
  - (b) Shaw will keep the interest (if any) earned on any trust account or clients' segregated account, including any interest earned with respect to any money of yours which must be paid into that account in accordance with the requirements of the Corporations Act, and
  - (c) all monies credited to the trust account or clients' segregated account maintained by Shaw's Clearing Participant, may be used by Shaw or its Clearing Participant to meet the default of other clients of Shaw.
- 7.4 You must make such arrangements for transfer of securities or payment of amounts on exercise or assignment of ASX Derivative Products that are held on your account, as

Shaw or its Clearing Participant reasonably require and notify to you. In particular, you must by close of business on the day on which you are notified of the exercise or assignment of an open contract, in respect of your account, either:

- (a) notify Shaw that you intend to complete the transaction arising from the exercise or assignment, or
- (b) instruct Shaw to take other steps to settle the obligations arising from exercise, including entering into another transaction in ASX Derivative Products or exercising any open contract.

## 8. Default

- 8.1 If:
- (a) you fail to pay, or provide security for, amounts payable to Shaw or its Clearing Participant or fail to perform any obligation arising pursuant to the exercise or settlement of a contract in ASX Derivative Products
  - (b) a guarantee or other security provided by you to Shaw is withdrawn or becomes ineffective
  - (c) you breach any material provision of this Agreement, the Client Agreement or the Derivatives Clearing Agreement
  - (d) in the absence of you making alternative arrangements, you are not contactable in order for Shaw to obtain instructions or call for payment of money or provision of other security, or
  - (e) any other event occurs which Shaw and you have agreed constitutes a default,

Shaw may, in addition to any other rights which it may have against you, in its absolute discretion without giving prior notice to you, take any action, or refrain from taking action, in connection with a contract in ASX Derivative Products registered in your Client Account (including, without limitation, contracts arising from those contracts transacted) and, without limitation, Shaw or its Clearing Participant may (at your risk and expense):

- (i) enter into one or more transactions to effect the close out of one or more contracts in ASX Derivative Products in accordance with the Clearing Rules
- (ii) exercise one or more ASX Derivative Products in accordance with the Clearing Rules
- (iii) cancel any unexecuted orders

- (iv) exercise any other rights conferred by the Clearing Rules, the Market Rules or this Agreement, or perform any other obligations arising under the Clearing Rules, the Market Rules or this Agreement in respect of those contracts in ASX Derivative Products, and/or
- (v) sell, in a manner determined by Shaw, any securities or other property of yours held by or under the control of Shaw and set off the proceeds of sale and any other amounts owed by Shaw to you against any amounts owed by you to Shaw, and you must account to Shaw as if those actions were taken on your instructions and, without limitation, you are liable for any deficiency and are entitled to any surplus which may result.

## 9. Commissions and Fees

- 9.1 You agree to:
- (a) pay Shaw commission (brokerage), fees, taxes and charges in connection with your ASX Derivative Products at the rates determined by Shaw from time to time and notified to you in writing
  - (b) reimburse Shaw for any miscellaneous costs incurred in relation to your dealings in ASX Derivative Products, including without limitation goods and services tax (GST), fail fees or late settlement fees, and
  - (c) pay any amounts due under paragraphs (a) and (b) in accordance with Shaw's instructions.
- 9.2 You authorise Shaw to deduct any amounts payable to Shaw from any account maintained by Shaw for you, including accounts where you act in the capacity of trustee of a trust.
- 9.3 You agree that any notice from Shaw, which sets out an amount due and payable by you to Shaw is, in the absence of manifest error on its face, conclusive evidence of the same.

## 10. Termination of this Agreement

- 10.1 Subject to the completion of any outstanding obligations, this Agreement may be terminated by either party by notice in writing at any time.
- 10.2 Termination does not affect the existing rights and obligations of the parties which accrued prior to termination or rights and obligations which arise as a consequence of termination. Upon termination of this Agreement, Shaw will close out all contracts in ASX Derivative Products held by Shaw on your Client Account unless, in accordance with a direction from

you, those contracts are transferred to another Participant in accordance with the Clearing Rules or the Market Rules.

- 10.3 You acknowledge that:
- (a) where you choose to transfer open contracts to another Participant, Shaw will cease to have any control or knowledge of the transferred positions and consequently Shaw will not have any responsibility or liability for losses incurred on open contracts after the date of transfer, and
  - (b) where you choose to transfer open contracts to Shaw from another Participant, Shaw will not have any liability in respect of such open contracts unless and until Shaw provides personal financial product advice in relation to such open contracts after the date of their transfer to Shaw.

## 11. Liability and Indemnity

- 11.1 Shaw shall not be liable for any loss or damage arising as a result of or in connection with:
- (a) any breach by you of this Agreement, the Market Rules, the Clearing Rules or the Corporations Act
  - (b) misinterpretation of any information provided by either of us in connection with the transactions contemplated by this Agreement
  - (c) a delay in the execution of your order during the time it takes Shaw to follow its internal procedures (for example, account opening, transferring CHESS holdings or Derivative positions, confirming your identity or any other matter as required by Shaw from time to time)
  - (d) a delay in the execution of your order, or an inability to complete your order, due to the failure of any telephone, computer or other electronic service, or
  - (e) a situation where Shaw does not receive your instructions, or is unable to receive or act on your instructions due to circumstances beyond Shaw's reasonable control, except to the extent that liability under any law cannot be excluded, or where the loss or damage was directly caused by Shaw's negligence, fraud or dishonesty.
- 11.2 You indemnify Shaw and its officers, employees and agents (those indemnified) from and against any loss or liability reasonably incurred by those indemnified arising out of any default by you under this Agreement, or anything lawfully done by Shaw pursuant to this Agreement, including



without limitation, complying with any direction or request from ASX, ASX Clear or other regulatory authority.

## 12. Miscellaneous

- 12.1 You acknowledge that you have read and understood any Statement of Advice provided to you.
- 12.2 Shaw may amend this Agreement by giving you not less than 7 days' notice in writing or by publishing any revision on Shaw's website at [www.shawandpartners.com.au](http://www.shawandpartners.com.au).
- 12.3 No waiver of any breach of this Agreement will be effected unless the waiver is in writing and signed by the party against whom the waiver is claimed.
- 12.4 Time is of the essence under this Agreement.
- 12.5 This Agreement is governed by and construed in accordance with the laws of New South Wales and the parties submit to the jurisdiction of the Courts of New South Wales.
- 12.6 The Derivatives Client Agreement, PDS and the Client Agreement contain the entire agreement between the parties about their respective subject matters. Any previous understanding, agreement, representation or warranty relating to that subject matter has no further effect and is replaced by the Derivatives Client Agreement, PDS and the Client Agreement.

## Second Part – Derivatives Clearing Agreement

### 1. Instructions

#### 1.1 ASX Derivative Products

You may from time to time instruct Shaw to deal in the following kinds of derivatives which are traded on ASX:

- (a) Options Market Contracts (sometimes referred to as Exchange Traded Options), and
- (b) other kinds of derivatives traded on ASX

but not including Futures Market Contracts (ASX Derivative Products).

#### 1.2 Authorisation of additional ASX Derivative Products

If you give instructions to Shaw to deal in an ASX Derivative Product in which Shaw is not authorised to deal under this clause, those instructions are taken to vary this agreement to authorise Shaw to deal in that ASX Derivative Product under this clause.

### 1.3 Right to refuse to deal

You acknowledge that:

- (a) Shaw's Clearing Participant may (and may instruct Shaw to) at any time refuse to deal in, or may limit dealings in, ASX Derivative Products for you. Shaw's Clearing Participant will notify you of any refusal or limitation as soon as practicable, and
- (b) Shaw's Clearing Participant is not required to act in accordance with your instructions, where to do so would constitute a breach of the ASX Clear Rules, the ASX Operating Rules, ASIC Market Integrity Rules or the Corporations Act.

### 1.4 Authority to act on instructions

You authorise Shaw's Clearing Participant to accept and act, without any inquiry, upon instructions provided (including orders placed) by fax or e-mail which appear to Shaw's Clearing Participant to have been given by you, Shaw or by any other person on your behalf, and you indemnify Shaw's Clearing Participant in respect of any losses or expenses that Shaw's Clearing Participant may suffer or incur as a result of so acting.

## 2. Clearing Arrangements and Relationship With ASX and ASX Clear

### 2.1 Clearing Agreement between Shaw and Shaw's Clearing Participant

Shaw is a Market Participant of ASX and is a party to a Clearing Agreement with Shaw's Clearing Participant for the purposes of the ASX Operating Rules and the ASX Clear Rules.

Shaw's Clearing Participant is a Clearing Participant of ASX and a General Participant of ASX Clear.

### 2.2 Nature of Shaw's Clearing Participant's obligations [ASX Clear Minimum Term 4]

You acknowledge that:

- (a) notwithstanding that Shaw's Clearing Participant or Shaw may act in accordance with your instructions, or for your benefit, any Derivatives Contract arising from any order submitted to ASX is entered into by Shaw as principal, and
- (b) upon registration of a Derivatives Contract with ASX Clear in the name of Shaw's Clearing Participant, Shaw's Clearing Participant incurs obligations to ASX Clear



as principal, even though the Derivatives Contract may have been entered into on your instructions.

### **2.3 Your obligations owed to Shaw's Clearing Participant**

On execution of a Derivatives Transaction in an ASX Derivative Product by Shaw on your behalf, you owe obligations to Shaw's Clearing Participant in relation to that Derivative Transaction including the obligations set out in this agreement.

Where you owe an obligation to deliver funds, security or information to Shaw's Clearing Participant that obligation will not be satisfied by delivery to Shaw.

### **2.4 Misdirected Transactions**

You acknowledge that, if at any time Derivatives Transactions executed by Shaw are also to be cleared through a Clearing Participant (other than Shaw's Clearing Participant):

- (a) Shaw may, incorrectly or otherwise, direct a Derivatives Transaction which it has executed on your behalf to a Clearing Participant other than Shaw's Clearing Participant (Misdirected Transaction)
- (b) Shaw's Clearing Participant will not carry the settlement obligations in respect of any Misdirected Transaction, and
- (c) Shaw's Clearing Participant will not give you a confirmation in respect any Misdirected Transaction.

### **2.5 Rights of Client [ASX Clear Minimum Term 4]**

You acknowledge that any benefit or right obtained by Shaw's Clearing Participant upon registration of a Derivatives Contract with ASX Clear by novation of a contract under the ASX Clear Rules or any other legal result of registration is personal to Shaw's Clearing Participant and the benefit of that benefit, right or legal result does not pass to you. You have no rights, whether by way of subrogation or otherwise, against ASX or ASX Clear in relation to any transactions by Shaw's Clearing Participant (or Shaw or any other Market Participant or Clearing Participant) in any Derivatives Contract.

### **2.6 Appointment as agent [ASX Clear Minimum Term 10]**

You irrevocably appoint severally ASX Clear, and every director, manager and assistant manager for the time being of ASX Clear, at the option of ASX Clear (as applicable) to do all acts and

execute all documents on your behalf for the purpose of exercising the powers conferred on ASX Clear under ASX Clear Rule 15 including, the power to transfer or close out Derivatives Contracts if Shaw's Clearing Participant commits an event of default.

### **2.7 Application of ASX Operating Rules and ASX Clear Rules [ASX Clear Minimum Term 1]**

You and Shaw's Clearing Participant agree that the terms of the relationship in respect of Derivatives Contracts, and any dealings between them concerning Derivatives Contracts are subject to, and that they are bound by the Corporations Act, the ASX Operating Rules, the ASX Clear Rules and the procedures, customs, usages and practices of ASX, ASX Clear and their related entities, as amended from time to time, insofar as they apply to Derivatives Contracts.

## **3. Margin Calls and Cover**

### **3.1 Shaw's Clearing Participant may call for funds or security [ASX Clear Minimum Term 6]**

Shaw's Clearing Participant may call for payment of money or the provision of other security (Clearing Participant Cover) which Shaw's Clearing Participant considers, in its absolute discretion, appropriate in connection with the obligations incurred by Shaw's Clearing Participant in respect of Derivative Contracts entered into on your account. You acknowledge that Shaw's Clearing Participant is entitled to call for Clearing Participant Cover under this sub-clause 3.1 of an amount or value which exceeds the amount of the Cover which Shaw's Clearing Participant is required to provide to ASX Clear in respect of the Derivative Contracts registered with ASX Clear in your Client Account. The time by which you must pay any amount called or provide security is of the essence. You must pay the amounts, or provide the relevant security, within 24 hours of the call for payment.

### **3.2 Calls for additional Clearing Participant Cover**

Notwithstanding the above sub-clause and anything else in this agreement, Shaw's Clearing Participant will not call for Clearing Participant Cover in excess of Cover which Shaw's Clearing Participant is required to provide to ASX Clear in respect of your Client Account, unless it has first obtained Shaw's approval.

### 3.3 Application of funds or financial products to satisfy calls

You authorise Shaw's Clearing Participant to withdraw or otherwise apply funds or financial products held on your behalf to partially or fully satisfy such calls.

### 3.4 Authority to provide Cover

If you make money or financial products available to Shaw's Clearing Participant as Clearing Participant Cover (whether by delivery to Shaw's Clearing Participant or application by Shaw's Clearing Participant under this agreement), you:

- (a) warrant that you are legally entitled and authorised to do so, and that the Clearing Participant Cover is free from all Encumbrances, and
- (b) authorise Shaw's Clearing Participant to pay the money and/or make the financial products available to ASX Clear as Cover.

### 3.5 Interest on Cover

No interest is payable on money or other security provided by you to Shaw's Clearing Participant under this clause.

### 3.6 Shaw's Clearing Participant may use money as Cover

Shaw's Clearing Participant may itself provide money or other financial products to ASX Clear as Cover for its Clearing Obligations and Shaw's Clearing Participant will retain any interest it receives on such money.

## 4. Commissions and Fees

### 4.1 Commissions and fees [ASX Clear Minimum Term 8]

You must pay to Shaw's Clearing Participant commissions, fees, charges and taxes in connection with your dealings in ASX Derivative Products at the rates determined by Shaw's Clearing Participant from time to time and notified to you in writing.

Commission is payable to Shaw's Clearing Participant on a contract executed by Shaw's Clearing Participant for the transfer of Underlying Financial Products following the exercise of a Derivatives Contract. Shaw's Clearing Participant will pass on part of that commission to Shaw.

Commission charged by Shaw to you is also collected by Shaw's Clearing Participant on behalf of Shaw. Shaw's Clearing Participant will account to Shaw for such commission

after deducting fees which Shaw's Clearing Participant charges to Shaw.

## 5. Money and Default

### 5.1 Your funds and property [ASX Clear Minimum Term 15]

Shaw's Clearing Participant must deal with any money and property paid or given to Shaw's Clearing Participant in connection with the Shaw's Clearing Participant/Client relationship in accordance with the Corporations Act and the ASX Clear Rules.

### 5.2 Combination, deposit and use of funds [ASX Clear Minimum Term 15]

- (a) You acknowledge that your monies and the monies of other clients of Shaw's Clearing Participant may under the ASX Clear Rules be combined and deposited by Shaw's Clearing Participant in a trust account or clients' segregated account. You acknowledge that all monies credited to the clients' segregated account maintained by Shaw's Clearing Participant may be used by Shaw's Clearing Participant to meet the default of any client of Shaw's Clearing Participant.
- (b) Despite sub-clause 5.2(a), Shaw's Clearing Participant agrees that it will only pay your monies into a trust account.

### 5.3 Set Off

Shaw's Clearing Participant is entitled to set off any monies received from the sale of financial products on your behalf against any monies due to Shaw's Clearing Participant by you on any account.

### 5.4 Default [ASX Clear Minimum Term 7]

If:

- (a) you fail to pay, or provide security for, amounts payable to Shaw's Clearing Participant or fail to perform any obligation arising pursuant to the exercise or settlement of a Derivatives Contract
- (b) you become bankrupt or enter into a composition or arrangement for the benefit of creditors or, being a company, a liquidator is appointed to you or an administrator, receiver, receiver and manager or official manager is appointed over all or a part of your property or an encumbrancer or its agent takes possession of all or part of your property or you enter into any scheme of arrangement with creditors under Part 5.1 of the Corporations Act

- (c) you make any representation that is incorrect or misleading in any material way with the result that loss or damage is, or is likely to be, suffered by Shaw's Clearing Participant
- (d) in the absence of you making alternative arrangements, you are (at any time) not contactable by Shaw immediately in order for Shaw's Clearing Participant to obtain instructions or call for payment of money or the provision of other security
- (e) your conduct is such that a reasonably prudent correspondent would be of the view that you would be unable to comply with all your obligations under this agreement, including strict compliance with any time limits
- (f) you fail to complete a contract for the transfer of Underlying Financial Products following the exercise of an Derivatives Contract
- (g) a guarantee or other security provided by you to Shaw's Clearing Participant is withdrawn or becomes ineffective and other replacement security acceptable to Shaw's Clearing Participant is not provided
- (h) you 'fail to settle' for the purpose of the terms of your agreement with Shaw's Clearing Participant set out in the Clearing Agreement provided to you by Shaw in respect of the clearing and settlement of transactions in financial products quoted on ASX or other Market Transactions, or
- (i) any other event occurs which Shaw's Clearing Participant and you have agreed in this agreement constitutes a default, (each, a *default*), Shaw's Clearing Participant may, in addition to any other rights which it may have against you, without giving prior notice to you, take any action, or refrain from taking action, which it considers reasonable in the circumstances in connection with Derivatives Contracts registered in the Client Account or otherwise entered into for your account (including, Derivatives Contracts arising from those contracts) and, Shaw's Clearing Participant may:
  - (j) enter into one or more transactions (whether on-market or by private contract, together or in lots for cash or credit and for a price or prices upon such terms and conditions in all respects as Shaw's Clearing Participant sees fit) to effect the close out of one or more Derivatives Contracts in accordance with the ASX Clear Rules
  - (k) exercise one or more Derivatives Contracts in accordance with the ASX Clear Rules
  - (l) enter into or execute any Cash Market Transaction or Derivatives Transaction (including a Futures Market Transaction) as Shaw's Clearing Participant sees fit, whether or not you are permitted under clause 1
  - (m) sell or cause to be sold:
    - (i) any or all of your property, including any security lodged with Shaw's Clearing Participant (whether the property or security had been lodged with Shaw's Clearing Participant in connection with this agreement or for any other reason) or held by Shaw's Clearing Participant or its Related Bodies Corporate on your behalf or in a Holding in respect of which Shaw's Clearing Participant, its nominee company or a Related Body Corporate of Shaw's Clearing Participant is the Controlling Participant, and
    - (ii) any financial products held by Shaw's Clearing Participant in an account for you or otherwise held (including any financial products in a Holding in respect of which Shaw's Clearing Participant, its nominee company or a Related Body Corporate of Shaw's Clearing Participant is the Controlling Participant)
  - (n) exercise any other power, right or remedy which Shaw's Clearing Participant may have under this agreement or in law or equity
  - (o) exercise or cause to be exercised any other rights conferred by the ASX Operating Rules, the ASX Clear Rules or this agreement or perform any other obligations arising under the ASX Operating Rules, the ASX Clear Rules or this agreement in respect of any Derivatives Contracts or Derivatives Transactions
  - (p) charge an administration fee calculated by reference to the additional cost which may be incurred by Shaw's Clearing Participant as a result of the default
  - (q) levy a default charge on the amount of up to 16% per annum
  - (r) apply any cash held by Shaw's Clearing Participant or Shaw on your account or to which they have access (including any amount held), or payments received from you or in reduction of your liability to Shaw's Clearing Participant, or

- (s) instruct Shaw to cancel any of your unexecuted orders,

and you must account to Shaw's Clearing Participant as if those actions were taken on your instructions and are liable for any deficiency and entitled to any surplus which may result.

In relation to any of the rights exercisable for the benefit of Shaw's Clearing Participant in the event of a default, you authorise Shaw's Clearing Participant and each of its directors and employees as your attorney to give instructions on your behalf in respect of your holdings of financial products for which Shaw's Clearing Participant, its nominee company or a Related Body Corporate of Shaw's Clearing Participant is the Controlling Participant, or held by Shaw's Clearing Participant, its nominee company or by their Related Bodies Corporate in nominee holdings, and in respect of call deposit facilities or cash management trust accounts on which they are authorised to give instructions, to enable Shaw's Clearing Participant to realise those financial products or funds and apply the proceeds in reduction of your liability to Shaw's Clearing Participant and to recover Shaw's Clearing Participant's costs in so acting.

You must pay or reimburse Shaw's Clearing Participant any such administration fees and default charges (together with any GST payable on those amounts) immediately upon demand or at Shaw's Clearing Participant's option it may deduct such administration fees and default charges (and any GST) from any proceeds of sale, or proceeds from the close out or exercise of rights in relation to a Derivatives Contract, or other amounts otherwise payable to you.

Shaw's Clearing Participant will not be liable to you for any failure by Shaw's Clearing Participant to exercise (or any delay in the exercise by Shaw's Clearing Participant of) any power under this clause 5, or any loss incurred by you as a result of Shaw's Clearing Participant not exercising any of its powers under this clause 5 immediately, or at all, following an event of your default.

You acknowledge that Shaw's Clearing Participant, in exercising any of its rights under this sub-clause 5.4, is entitled to act to protect its own interests and is under no obligation to subordinate the protection of its own interests to yours.

### **5.5 Effect of liquidation of contract following default**

Upon close out of any Derivatives Contract in accordance with sub-clause 5.4, you are

liable to pay to Shaw's Clearing Participant any amount owing to Shaw's Clearing Participant in respect of that contract. If you fail to make that payment within the time specified by Shaw's Clearing Participant (which time is of the essence), Shaw's Clearing Participant may deal with any of your money or other property held by Shaw's Clearing Participant and apply the proceeds against that amount.

### **5.6 Assignment to Shaw of amounts owing**

If you have not paid any amount due to Shaw's Clearing Participant under this agreement, in addition to its rights under sub-clause 5.4, Shaw's Clearing Participant may assign that debt to Shaw and the assigned debt will become an obligation of yours to Shaw.

### **5.7 Method of Payment**

Where money is payable to Shaw's Clearing Participant by you (for example where Shaw's Clearing Participant has called for payment of money under sub-clause 3.1 or has notified you of commissions and fees in accordance with clause 4), you:

- (a) are not permitted to make payment in cash, and
- (b) will be entitled to make payment from a cheque or savings account by BPAY, where the relevant document provided by Shaw (such as a confirmation or notice as the case may be) bears a Biller Code. Payment by this means will only be acceptable to Shaw's Clearing Participant if you quote the relevant Biller Code and its BPAY reference number.

### **5.8 Release**

In consideration of Shaw's Clearing Participant entering into this agreement with you, you release Shaw's Clearing Participant (and its Related Bodies Corporate and their respective directors, officers, employees and agents) (the Released Parties) in respect of all present or future claims you may have against the Released Parties or any of them arising out of or in connection with the exercise by Shaw's Clearing Participant of any of its rights under this clause 5.

## **6. Acknowledgements and Warranties**

### **6.1 Change of Participant [ASX Clear Minimum Term 16]**

If you receive a Participant Change Notice from Shaw's Clearing Participant and the Participant



Change Notice was received at least 20 Business Days prior to the date proposed in the Participant Change Notice for the change of Participant, you are under no obligation to agree to the change of Participant, and may choose to do any of the things set out below.

You may choose to terminate this agreement in accordance with sub-clause 10.1 or by giving instruction to Shaw's Clearing Participant, indicating that you wish to transfer your Derivatives Contracts to another Participant.

If you do not take any action to terminate this agreement and do not give any other instructions to Shaw's Clearing Participant which would indicate that you do not agree to the change of Participant then, on the Effective Date, this agreement will have been taken to be novated to the new Participant and will be binding on all parties as if on the Effective Date:

- (a) the new Participant is a party to this agreement in substitution for Shaw's Clearing Participant
- (b) any rights of Shaw's Clearing Participant are transferred to the new Participant, and
- (c) Shaw's Clearing Participant is released by you from any obligations arising on or after the Effective Date and you will also be taken to have consented to and authorised:
  - (i) the transfer to the new Participant of all your open Derivatives Contracts as at the Effective Date so that they will be registered with ASX Clear in the new Participant's name, and
  - (ii) the payment or transfer to the new Participant (or a Controlling Participant or nominee nominated by the new Participant) on the Effective Date of all money and other security (including all Clearing Participant Cover) provided to Shaw's Clearing Participant under this agreement before the Effective Date to be held by the new Participant (or by the nominee or in a Holding in respect of which the new Participant (or another Controlling Participant nominated by the new Participant) is the Controlling Participant as the case may be) under clause 3 of this agreement as novated,

and you have executed before the Effective Date a Registered Holder Collateral Cover Authorisation under which you authorise a Controlling Participant to reserve (or withdraw) financial products registered in your name in the ASX Clear Subposition as Collateral Cover for obligations in respect of Derivatives Contracts registered with ASX Clear in Shaw's Clearing

Participant's name in your Client Account, you are also taken to have appointed the new Participant and each director, secretary and officer of the new Participant for the time being as your attorney to complete and execute a Registered Holder Collateral Cover Authorisation under which you authorise that Controlling Participant to reserve (or withdraw) financial products registered in your name in the ASX Clear Subposition as Collateral Cover for obligations in respect of Derivatives Contracts registered with ASX Clear in the new Participant's name in a Client Account for you.

The novation cannot take effect until you have received a notice from the new Participant confirming that the new Participant consents to acting as the Participant for you. The Effective Date may as a result be later than the date set out in the Participant Change Notice.

You will be taken to have consented to the events referred to above by the doing of any act which is consistent with the novation of this agreement to the new Participant (for example by giving an instruction to the new Participant), on or after the Effective Date, and such consent will be taken to be given as of the Effective Date.

This agreement continues for the benefit of Shaw's Clearing Participant in respect of any rights and obligations accruing before the Effective Date and, to the extent that any law or provision of any agreement makes the novation not binding or effective on the Effective Date, then this agreement will continue for the benefit of Shaw's Clearing Participant until such time as the novation is effective, and the existing Participant will hold the benefit of this agreement on trust for the new Participant.

Nothing in this sub-clause 6.1 will prevent the completion of Derivatives Transactions or Derivatives Contracts by Shaw's Clearing Participant where the obligation to complete those transactions or contracts arises before the Effective Date and this agreement will continue to apply to the completion of those contracts, notwithstanding the novation of this agreement to the new Participant under this sub-clause 6.1.

## **6.2 Explanatory Booklet and other documents [ASX Clear Minimum Term 3]**

You have received and read a copy of the current explanatory booklet published by ASX in respect of each ASX Derivative Product. This does not apply in relation to you if you are a Wholesale Client.

You acknowledge that you have read and understood the documents (if any) given to you under ASX Clear Rule 7.1.1(b).



### **6.3 Risk and investment in ASX Derivative Products [ASX Clear Minimum Term 3]**

You acknowledge that trading in ASX Derivative Products incurs a risk of loss as well as a potential for profit.

You acknowledge that you have given consideration to your objectives, financial situation and needs and have formed the opinion that dealing in ASX Derivative Products is suitable for your purposes.

### **6.4 Dealing as Principal and Shaw's Clearing Participant taking opposite position [ASX Clear Minimum Term 5]**

You acknowledge that Shaw's Clearing Participant may, in certain circumstances permitted under the Corporations Act and the ASIC Market Integrity Rules, or the ASX Clear Rules, take the opposite position in a Derivatives Contract, either acting for another client or on its own account.

### **6.5 Confirmations**

You acknowledge that any confirmation (contract note/daily statement) dispatched electronically to you by Shaw's Clearing Participant on its own behalf or on behalf of Shaw is subject to:

- (a) the terms and conditions of this agreement
- (b) the ASIC Market Integrity Rules, ASX Operating Rules, directions, decisions and requirements of ASX and where relevant, the ASX Settlement Rules
- (c) the customs and usages of the Market (as defined in the ASIC Market Integrity Rules), and
- (d) the correction of errors and omissions.

### **6.6 Cancellation of trades**

You authorise Shaw's Clearing Participant, and agree that Shaw's Clearing Participant may, without your consent, cancel or amend (or request or agree to the cancellation or amendment of) any Derivatives Contract to which a confirmation relates:

- (a) if ASX exercises its power under the ASX Operating Rules to cancel or amend (or require the cancellation or amendment of) the Derivatives Transaction or Derivatives Contract, or
- (b) in the event of an Error (as defined in the ASX Operating Rules) or otherwise in the circumstances contemplated in the ASX Operating Rules.

The obligations of Shaw's Clearing Participant and you relating to the settlement of a transaction cease to apply in respect of a cancelled transaction from the time it is cancelled.

## **7. Information**

### **7.1 Provision of Information [ASX Clear Minimum Term 2]**

You will take all reasonable steps to deliver information or documentation to Shaw's Clearing Participant, or cause information or documentation to be delivered to Shaw's Clearing Participant concerning Derivatives Transactions which are requested by a person having a right to request such information or document. Shaw's Clearing Participant is authorised to produce the information or documentation to the person making the request.

### **7.2 Tape recording of conversations [ASX Clear Minimum Term 9]**

You agree that Shaw's Clearing Participant may record telephone conversations between you and Shaw's Clearing Participant. You also agree that Shaw's Clearing Participant may use such recordings for the purposes of resolving disputes, and monitoring compliance by you, or Shaw with their regulatory and contractual obligations. If there is a dispute between you and Shaw's Clearing Participant, you have the right to listen to any recording of those conversations. Nothing in this agreement obliges Shaw's Clearing Participant to keep a recording longer than 90 days.

## **8. Allocation (Give Up)**

### **8.1 Shaw's Clearing Participant must consent to any give up**

You acknowledge that Shaw's Clearing Participant is obliged as principal, and has the Clearing Obligations in respect of, all transactions in relation to ASX Derivative Products which are executed by Shaw on your behalf, unless, in relation to a specified Derivatives Contract (Allocated Trade):

- (a) you have consented to the allocation of the Derivatives Contract to another Participant
- (b) Shaw's Clearing Participant has consented to the allocation of the Derivatives Contract to that other Participant

- (c) Shaw's Clearing Participant has provided that consent prior to the Derivatives Contract being registered with ASX Clear
- (d) that other Participant has accepted the allocation of that Derivatives Contract in accordance with the ASX Clear Rules, and
- (e) that other Participant has entered into a Client Agreement with you which complies with the ASX Clear Rules.

## 8.2 Shaw's Clearing Participant ceases to have Clearing Obligations following give up

Sub-clauses 3.1 and 5.4 do not apply in relation to an Allocated Trade, where you direct that trades be allocated to a Participant (who is not Shaw's Clearing Participant) for registration in the relevant Client Account of that other Participant and the other Participant accepts the allocation of those trades for registration, and the trade is allocated by Shaw's Clearing Participant to the other Participant in accordance with the ASX Clear Rules.

## 9. Indemnity

### 9.1 Client to indemnify Shaw's Clearing Participant

You agree to indemnify and keep indemnified Shaw's Clearing Participant from all claims, losses, liabilities, damages and costs (including legal costs on a solicitor and client basis) whatever and however arising suffered or incurred by Shaw's Clearing Participant directly or indirectly arising out of or in connection with:

- (a) Shaw's Clearing Participant acting as Clearing Participant for the purposes of the ASX Operating Rules and as General Participant for the purposes of the ASX Clear Rules as contemplated by this agreement
- (b) the performance by Shaw's Clearing Participant of its obligations under this agreement
- (c) any failure by you to strictly comply with, or to perform any of its obligations under, this agreement
- (d) any representation or warranty given by you under this agreement proving to be untrue or incorrect, or
- (e) any Allocated Trade.

## 10. Termination of this Agreement

### 10.1 Termination by notice [ASX Clear Minimum Term 11]

Either you or Shaw's Clearing Participant may terminate this agreement at any time by giving notice in writing to the other. Termination will be effective upon receipt of the notice by the other party.

### 10.2 Effect of termination [ASX Clear Minimum Term 12]

Termination does not affect the existing rights and obligations of yours or Shaw's Clearing Participant at or prior to termination. Upon termination of this agreement, Shaw's Clearing Participant will close out all Derivatives Contracts held by Shaw's Clearing Participant for your account, unless, in accordance with your direction, the registration of those contracts are transferred to another Participant in accordance with the ASX Operating Rules or ASX Clear Rules.

## 11. Amendment

### 11.1 Revised Terms prescribed by ASX Clear [ASX Clear Minimum Term 13]

If ASX Clear prescribes amended minimum terms for a Client Agreement for the purposes of the ASX Clear Rules (New Terms), to the extent of any inconsistency between this agreement and the New Terms, the New Terms will override this agreement and apply as if you and Shaw's Clearing Participant had entered into an agreement containing the New Terms.

### 11.2 Shaw's Clearing Participant to provide Client with copy of changes [ASX Clear Minimum Term 14]

Shaw's Clearing Participant will provide a copy of the New Terms to you as soon as practicable after ASX Clear or ASX prescribes the New Terms.

## 12. Set Off

- 12.1 Without limiting sub-clause 5.3, Shaw's Clearing Participant may, without notice to you, combine any account that you hold at any branch or office (in Australia or elsewhere) of Shaw's Clearing Participant with, or set off any amount in any currency that is or may become owing in any currency by Shaw's Clearing Participant (or any Related Body Corporate or Shaw's Clearing Participant) to you against, any amount owing by you to Shaw's Clearing Participant (or any

Related Body Corporate of Shaw's Clearing Participant). For this purpose Shaw's Clearing Participant may:

- (a) change the terms (including the repayment date) of any account or other payment obligation between the parties
- (b) convert amounts into different currencies in accordance with Shaw's Clearing Participant's usual practice, and
- (c) do anything (including execute any document) in your name that Shaw's Clearing Participant considers necessary or desirable.

This clause 12 overrides any other document or agreement to the contrary.

### 13. Notices

- 13.1 Any confirmation, statement or other written notice (including legal process) served by Shaw's Clearing Participant on you, or served by you on Shaw's Clearing Participant pursuant to this agreement will be deemed to have been duly served and received:
  - (a) if given by hand, at the time left at the relevant party's last known place of residence or business
  - (b) if given by mail, two Business Days after it is posted where the recipient party's last known address is in Australia, and ten Business Days after it is posted by airmail where the recipient party's last known address is outside Australia
  - (c) if given by telex, upon receipt of the recipient party's answer back
  - (d) if given by telegram, six hours after dispatch to the recipient party
  - (e) if given by facsimile transmission, at the time of transmission to the recipient party's last known facsimile number, or upon acknowledgment by the recipient party, or
  - (f) if given electronically, upon receipt of a confirmation of delivery by the party giving the notice of the electronic mail message to the last known electronic mail address of the recipient party.
- 13.2 Unless otherwise specified in this agreement, notices served by Shaw's Clearing Participant on you need not be in writing. In particular, a call under sub-clause 3.1 may be made by telephone to you by Shaw's Clearing Participant or by Shaw on Shaw's Clearing Participant's behalf.
- 13.3 Shaw's Clearing Participant may arrange for any notice to be given by Shaw's Clearing

Participant to you under this agreement or the ASX Clear Rules to be given to you by Shaw acting as Shaw's Clearing Participant or Shaw's Clearing Participant Nominee's agent. Shaw's Clearing Participant may also provide Shaw with a copy of any such communication or notice given to you by (or on behalf of) Shaw's Clearing Participant.

- 13.4 You hereby indemnify Shaw's Clearing Participant against any liability, damage, cost or expense incurred by Shaw's Clearing Participant arising out of Shaw's Clearing Participant acting (or declining to act) upon a facsimile request or instruction received by Shaw's Clearing Participant whether directly or through a request made of an officer or employee of any Related Body Corporate of Shaw's Clearing Participant from you or any person purporting to be you or your Authorised Representative or agent.
- 13.5 Shaw's Clearing Participant may reserve the right to refuse any instruction transmitted by facsimile.

### 14. Authority

- 14.1 You acknowledge that you are either:
  - (a) acting as principal, or
  - (b) acting as an intermediary on another's behalf and is specifically authorised to transact the ASX Derivative Products, by the terms of:
    - (i) an Australian financial services licence under the Corporations Act held by you
    - (ii) a trust deed (if you are a trustee), or
    - (iii) an agency contract.

### 15. Representations and Warranties as to Capacity

- 15.1 You represent and warrants to Shaw's Clearing Participant that:
  - (a) where you are a body corporate, you are (and will remain) duly incorporated under the laws of the place of its incorporation and has full power and authority to enter into this agreement and deal in ASX Derivative Products, and any person executing this agreement has full power and authority to execute this agreement on your behalf
  - (b) where you are a partnership, you have full power and authority to enter this agreement and to deal in ASX Derivative Products, and the person executing this agreement has full power and authority to execute this agreement on your behalf

- (c) where you are a natural person, you have legal capacity to execute this agreement, and

in any of the above cases, where you enter this agreement as trustee, you have full power and authority as such trustee to enter this agreement and to deal in ASX Derivative Products and have the right to be indemnified out of the assets of the relevant trust in respect of all and any of its obligations and liabilities under this agreement.

## 16. Instructions and Authorised Representatives

### 16.1 Powers of authorised representatives

You agree that each of the persons stated in the application form (or otherwise notified by you to Shaw's Clearing Participant) to be an Authorised Representative of yours, has power for and on behalf of you and in your name to:

- (a) give instructions to Shaw's Clearing Participant in relation to Clearing Participant Cover of yours or in relation to the Derivatives Transactions or Derivatives Contracts including to directing or consenting to dealing by Shaw's Clearing Participant in any Clearing Participant Cover, Derivatives Transactions of Derivatives Contracts of yours and any application of the proceeds of any such dealing
- (b) request and accept drawings
- (c) do all other acts and things (including completing, executing and delivering documents) as the Authorised Representative thinks necessary or desirable to give effect to the above powers or otherwise in connection with this agreement, and
- (d) appoint other persons (each a Delegate) with power to exercise all or any of the powers of the Authorised Representative conferred by this clause 16.

### 16.2 Ratification of Decisions

You agree to ratify and confirm anything done by the Authorised Representative or a Delegate in the exercise of the above powers.

### 16.3 Revocation of Power

You may revoke an Authorised Representative's powers by notice in writing to Shaw's Clearing Participant. A declaration by an Authorised Representative to the effect that his or her powers have not been revoked is conclusive evidence of that fact and binding you.

## 16.4 Indemnity

You hereby indemnify each of Shaw's Clearing Participant against any liability, damage, cost or expense incurred by Shaw's Clearing Participant arising out of it acting upon an oral request received by it whether directly or through a request made of an officer or employee of any Related Body Corporate of Shaw's Clearing Participant from you or any person purporting to be you or your Authorised Representative or agent.

## 17. No Advice

17.1 Shaw's Clearing Participant does not provide financial product advice.

You acknowledge that Shaw's Clearing Participant does not provide financial product advice, and Shaw's Clearing Participant does not accept responsibility for any financial product advice given to you by Shaw, and you must not represent to any person that Shaw's Clearing Participant has given any financial product advice to you.

If you are to trade in ASX Derivative Products on the basis of advice given to you by Shaw, you must provide Shaw with:

- (a) all information (and documentation) regarding your financial situation, investment objectives and particular needs sufficient and necessary for Shaw to give informed financial product advice
- (b) any relevant new information (and documentation) as soon as it becomes available, and

details of or any change in your financial situation, investment objectives and particular needs as soon as such change occurs.

17.2 Manner in which Shaw's Clearing Participant exercises its rights is not to be taken to be advice.

Shaw's Clearing Participant has various rights under this agreement, including:

- (a) the right under clause 3 to require you to provide Clearing Participant Cover, and
- (b) various rights under clause 5 if a default occurs in relation to you.

The manner in which Shaw's Clearing Participant may exercise or not exercise, or the timing of or any delay in any exercise by Shaw's Clearing Participant of, any right of Shaw's Clearing Participant under this agreement is not to be taken to be financial product advice by Shaw's Clearing Participant to you, and you must not represent to any person that it is financial product advice by Shaw's Clearing Participant.

## 18. General

### 18.1 Costs and Taxes

You will pay Shaw's Clearing Participant on demand all stamp duty or any other duty imposed by state or federal legislation and registration fees (if any) payable on or in connection with this agreement and any documents executed under or in connection with this agreement and all legal costs (on a solicitor and own client basis) and expenses of or in connection with the enforcement or attempted enforcement of this agreement and all costs and expenses including financial institutions duty and debits tax (whether payable directly by Shaw's Clearing Participant or payable by Shaw's Clearing Participant by way of reimbursement to the party liable to pay the same) in relation to all transactions (including payments, receipts and banking thereof) and all matters connected with or arising out of or contemplated by this agreement.

### 18.2 Entire agreement

This agreement contains the entire agreement between the parties about its subject matter. Any previous understanding, agreement, representation or warranty relating to that subject matter is replaced by this agreement and has no further effect.

### 18.3 Statements by Shaw's Clearing Participant

A statement by Shaw's Clearing Participant on any matter relating to this agreement (including any amount owing by you) is conclusive unless clearly wrong on its face.

### 18.4 Exercise of rights

No failure or delay on the part of Shaw's Clearing Participant in exercising any right, power or remedy under this agreement and no course of dealing between you and Shaw's Clearing Participant shall operate as a waiver of any breach or default by you nor shall any single or partial exercise of any such right, power or remedy preclude any further or other exercise of that or any other right, power or remedy.

### 18.5 Amendments

Except as provided in this agreement (including in clause 11):

- (a) this agreement may only be amended in writing

- (b) Shaw's Clearing Participant may amend this agreement at any time by giving written notice to you, and
- (c) an amendment will take effect on and from the date specified by Shaw's Clearing Participant in the notice being a date not less than 10 Business Days after the date of the notice.

### 18.6 Assignment

Your rights and obligations under this agreement are not capable of assignment. Shaw's Clearing Participant may assign or transfer its rights under this agreement or in relation to any Clearing Participant Cover without your consent and free from any rights of set-off or counterclaim. Subject to the ASX Settlement Rules, Shaw's Clearing Participant may assign or transfer its rights under this agreement without your consent and free from any rights of set-off or counterclaim.

### 18.7 Giving effect to agreement

Each party must do anything (including sign or give effect to any document) that Shaw's Clearing Participant may reasonably require, to give full effect to this agreement or the transactions contemplated by this agreement (including the provisions of clause 5).

You appoint Shaw's Clearing Participant and each officer of Shaw's Clearing Participant for the time being (each an Attorney) jointly and each of them severally to be your attorney with power in your name and on your behalf to execute any document or sign any agreement on your behalf necessary or to give full effect to this agreement or the transactions contemplated by this agreement.

### 18.8 Trust provisions

Where you enter into this agreement as trustee of a trust this agreement will bind that person both in its personal capacity and in its capacity as trustee of that trust and you represent and warrant to Shaw's Clearing Participant that:

- (a) it can be indemnified out of the assets of the trust for all liabilities incurred under this agreement
- (b) it will remain the owner of the Clearing Participant Cover unless it disposes of them in accordance with this agreement
- (c) Shaw's Clearing Participant can be subrogated to its right of indemnity
- (d) the transactions contemplated by this agreement are for the benefit and in the best interests of the beneficiaries of the trust, and



- (e) it has properly exercised its trust powers and has full authority under the trust to enter into the document containing this agreement.

### 18.9 Joint and several liability

If you constitute more than one person then each of those persons is jointly and severally bound by this agreement and Shaw's Clearing Participant are entitled to act on the instructions of any one of those persons.

### 18.10 Supervening legislation

Any present or future legislation which operates to vary your obligations in connection with this agreement, Clearing Participant Cover with the result that Shaw's Clearing Participant's rights, powers or remedies are adversely affected (including, by way of delay or postponement) is excluded except to the extent that its exclusion is prohibited or rendered ineffective by law.

### 18.11 No withholding

All payments to be made to Shaw's Clearing Participant must be made without deduction or withholding. If you are obliged by law to deduct or withhold any amount from any payment to be made under this agreement you will concurrently pay to Shaw's Clearing Participant such additional amount as will result in Shaw's Clearing Participant receiving the full amount which would have been received if the deduction or withholding had not been made.

### 18.12 Currency

All payments under this agreement are to be made in Australian dollars, except as Shaw's Clearing Participant otherwise agrees. If for any reason (including any judgment or order) any amount payable by you under this agreement is received or recovered by Shaw's Clearing Participant in another currency which, upon conversion of the other currency into Australian dollars, is less than the amount which would have been received by Shaw's Clearing Participant if paid in Australian dollars, then you must as an independent obligation indemnify Shaw's Clearing Participant on demand against the deficiency.

### 18.13 Recovery of GST

If GST has application to any Supply made under or in connection with this agreement, Shaw's Clearing Participant may in addition to any amount or consideration payable to it under this agreement, recover from you an additional amount on account of GST, such amount to be calculated by multiplying the amount

or consideration payable by you to it at the prevailing GST rate.

Any additional amount on account of GST recoverable from you under this clause shall be calculated without any deduction or set-off of any other amount and is payable by you upon demand of Shaw's Clearing Participant, whether such demand is by invoice or otherwise. To the extent that any party to the Terms (the Supplier), is or becomes liable to pay GST in connection with any Supply made under this agreement;

- (a) the Supplier may add an amount in respect of that GST to the agreed price of the supply
- (b) any party paying consideration for the Supply will pay the agreed price plus the amount in respect of GST, and
- (c) where required by the GST Law, the Supplier will issue a tax invoice which enables the person receiving the invoice, if permitted by the GST Law, to claim an input tax credit or refund of GST.

### 18.14 Governing law

This agreement is governed by the law in force in New South Wales and you and Shaw's Clearing Participant submit to the jurisdiction of the courts of New South Wales and courts which may hear appeals from those courts.

## 19. Definitions and Interpretation

### 19.1 Definitions

In this agreement unless the contrary intention appears:

**ASIC** means the Australian Securities and Investments Commission.

**ASIC Market Integrity Rules** means the ASIC Market Integrity Rules (ASX Market) 2010.

**Allocated Trade** has the meaning given to it in sub-clause 8.1.

**ASX** means ASX Limited ABN 98 008 624 691 or, where the context requires, the market operated by it.

**ASX Clear** means ASX Clear Pty Limited ABN 48 001 314 503.

**ASX Clear Rules** means the operating rules of ASX Clear as amended from time to time.

**ASX Derivative Product** has the meaning given to it in clause 1.

**ASX Operating Rules** means the operating rules of ASX as amended from time to time.

**ASX Settlement** means ASX Settlement Pty Limited ABN 49 008 504 532 and its agents appointed under the ASX Settlement Rules.

**ASX Settlement Rules** means the operating rules of ASX Settlement as amended from time to time.

**Authorised Representative** means each of the persons stated in the application form (or subsequently notified by you to Shaw's Clearing Participant in a form acceptable to Shaw's Clearing Participant) to be an Authorised Representative of yours.

**Banking Day** means a day (other than a Saturday or Sunday) on which banks are open for business in Melbourne.

**Business Day** means a day that is both a Trading Day under the ASX Operating Rules and a Business Day under the ASX Clear Rules.

**Cash Market Transaction** has the meaning given to it in the ASX Operating Rules.

**Clearing Participant** has the meaning given to it in the ASX Operating Rules.

**Clearing Participant Cover** has the meaning given to it in sub-clause 3.1.

**Client** or **you** means the client named in the Derivatives Client Account Form.

**Controlling Participant** has the meaning ascribed to it by ASX Settlement Rules and includes a person who upon a change of Controlling Participant would be a Controlling Participant.

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

**Derivatives Contract** means a Derivatives Market Contract or Derivatives CCP Contract (each as defined in the ASX Clear Rules) or the corresponding contract between Shaw and you or Shaw, as the context requires.

**Derivatives Transaction** has the meaning given to Derivatives Market Transaction in the ASX Operating Rules and where the context requires includes the sale or purchase of financial products following the exercise of a Derivatives Contract.

**Encumbrance** means any Security Interest, notice under sections 218 or 255 of the Income Tax Assessment Act 1936 (Cth) or under any similar provision of a State, Territory or Commonwealth law, profit a prendre, equity, interest, garnishee order, writ of execution, right of set-off, assignment of income or monetary claim, and any agreement to create any of them or allow them to exist.

**Futures Market Transaction** has the meaning given to it in the ASX Operating Rules.

**GST** means a goods and services tax or any similar tax imposed in Australia.

**GST Law** has the meaning given to it in the A New Tax System (Goods and Services Tax) Act 1999 (Cth).

**Holding** has the meaning given to it in the ASX Settlement Rules.

**Order** means an order or instruction in respect of a client of Shaw as principal (as the case may be) in relation to a Derivatives Transaction, and includes, without limitation, an order or instruction to:

- (a) open or close a position in relation to a Derivatives Contract;
- (b) submit an Exercise Notice to ASX Clear in relation to a Derivatives Contract; and
- (c) buy or sell an Underlying Financial Product.

**Related Body Corporate** has the meaning given to it in section 50 of the Corporations Act.

**Security Interest** means any bill of sale (as defined in any statute), mortgage, charge, lien, pledge, hypothecation, title retention arrangement, trust or power, as or in effect as security for the payment of a monetary obligation or the observance of any other obligation.

**Supply** has the meaning given to it in the GST Law.

**Underlying Financial Product** has the meaning given to it in the ASX Operating Rules.

Other words and phrases defined in the ASX Operating Rules, the ASX Clear Rules or the ASX Settlement Rules have the meaning given in the corresponding rules. You may inspect a copy of these rules at Shaw's Clearing Participant's offices on request.

## 19.2 Interpretation

In this agreement unless the contrary intention appears:

- (a) each gender includes the other genders
- (b) a reference to a statute, ordinance, code or other law includes regulations and other instruments under it and consolidations, amendments, re-enactments or replacements of any of them
- (c) a reference to this agreement or another agreement includes any variation or replacement of them

- (d) the word person includes a firm, a body corporate, an unincorporated association or an authority
- (e) a reference to a person includes a reference to the person's executors, administrators, successors, substitutes (including persons taking by novation) and assigns
- (f) a reference to anything (including any amount and Clearing Participant Cover) is a reference to the whole and each part of it and a reference to a group of persons (including you) is a reference to all of them collectively, to any two or more of them collectively and to each of them individually
- (g) if an example is given of anything (including a right, obligation or concept), the example does not limit the scope of that thing. For example, a reference to 'including' means 'including without limitation', and
- (h) the singular includes the plural and vice versa.

### 19.3 Headings

Headings are for convenience only and do not affect the interpretation of this agreement.

### 19.4 Banking Days

If any payment falls due on a non-Banking Day it will be made on the succeeding Banking Day.

### 19.5 Clients

Where you comprise more than one person, the obligations of those persons under this agreement shall be joint and several, a notice or demand given to one such person shall be deemed to have been given to all such persons, and, unless expressly agreed with Shaw's Clearing Participant to the contrary, each such person shall be deemed to be the agent of the others.

## Third Part – Deed of Guarantee and Indemnity

In consideration of Shaw supplying, or continuing to supply, services to the Company Client named in the Derivative Client Account Form (Client), each director of the Client who signs the Derivatives Client Account Form (Guarantors) hereby agrees to be bound as follows:

1. The Guarantor(s) jointly and severally guarantee all payments whatsoever to Shaw now owing, or which may in the future be owing to Shaw, including but not limited to any payments owing in respect of Financial Services which Shaw may supply to the Client.
2. The Guarantor(s) jointly and severally indemnify Shaw as a separate and independent obligation against all loss, damage, costs and expenses which Shaw may suffer or incur by reason of the Client failing to pay Shaw any amounts owing by the Client to Shaw, or by the Client failing to perform any of its obligations to Shaw.
3. This Deed shall be continuing and irrevocable and shall not be wholly or partially discharged by:
  - (a) any variation with or without Shaw's consent of any agreements, present or future, between the Client and Shaw
  - (b) any breach, wilful or otherwise, of any obligation of the Client whether with or without Shaw's consent
  - (c) the granting of any waiver or other indulgence by Shaw to any person including, but not limited to, the Client
  - (d) any subsequent transaction or arrangement between the Guarantor(s) and any person including, but not limited to, the Client
  - (e) the Guarantor(s) becoming a party to or being bound by any compromise, assignment of property, scheme or arrangement, composition of debts or scheme of reconstruction in respect of any property or any person
  - (f) any waiver, omission, laches, or default on the Guarantor(s) part where the liability of any person to the Guarantor(s) would, but for this provision, have been effectively released or discharged
  - (g) the death or incapacity or notice to the Guarantor(s) of the death or incapacity of any person
  - (h) the bankruptcy of any person or the liquidation or receivership of any company
  - (i) the avoidance or unenforceability of any part of this Deed, or
  - (j) the fact that the liability of the Client to the Guarantor(s) may be discharged for any reason whatsoever, other than payment in full and then provided that such payment is not subsequently as a preference or otherwise, and
  - (k) the Guarantor(s) shall be bound by this Deed until Shaw releases the Guarantor(s) in writing.

4. This Deed shall be binding upon each person who has executed it, notwithstanding the failure of any other party named as a party to execute it.
5. Any certificate or statement in writing by Shaw stating the amount owing by the Client and the Guarantor(s) pursuant to this Deed is, in the absence of clear error, prima facie evidence as to its contents.
6. In this Deed, Financial Services include but are not limited to the following:
  - (a) the buying and selling as agent of shares, units, derivatives or other property, rights or interests whether local or foreign and whether listed on a stock exchange or unlisted, and
  - (b) the provision of services usually provided by Shaw or its Clearing Participant to their clients.

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Shaw and Partners Limited  
ABN 24 003 221 583  
Participant of ASX Limited, Chi-X Australia  
Pty Limited and holder of Australian Financial  
Services Licence Number 236048

All data in this document is current as at  
1 November 2018 and is subject to change.



ShawandPartners