

# INTERACTIVE BROKERS LLC PRODUCT DISCLOSURE STATEMENT FOR OPTIONS TRADED ON THE AUSTRALIAN STOCK EXCHANGE LIMITED

Interactive Brokers LLC (ARBN 091191141; AFSL 245574) (“IB”) provides this Product Disclosure Statement (“PDS”) for exchange-traded options (“ETOs”) on the Australian Stock Exchange Limited (“ASX”). YOU MUST READ THIS DOCUMENT IN FULL BEFORE TRADING SUCH OPTIONS.

- » Some features and benefits of ETOs, including taxation implications and returns, are detailed below.
- » As detailed more fully below, ETOs are highly-risky investments. You should familiarize yourself with all the risks involved before trading such options.
- » IB’s commissions and fees are available on the IB website at [www.interactivebrokers.com](http://www.interactivebrokers.com).
- » General information regarding margin is set forth below, and IB’s margin policies are available on the IB website at [www.interactivebrokers.com](http://www.interactivebrokers.com). You acknowledge, however, that **IB GENERALLY WILL NOT ISSUE MARGIN CALLS, THAT IB WILL NOT CREDIT YOUR ACCOUNT TO MEET INTRADAY MARGIN DEFICIENCIES, AND THAT IB GENERALLY WILL LIQUIDATE POSITIONS IN YOUR ACCOUNT IN ORDER TO SATISFY MARGIN REQUIREMENTS WITHOUT PRIOR NOTICE TO YOU.** If you maintain a margin account with IB, you have also received and reviewed IB’s Disclosure of Risks of Margin Trading provided separately by IB and available on the IB website.
- » As of the date of this PDS, the cutoff time for the exercise of ASX options is 17:00 Sydney time. All in-the-money options shall be automatically exercised.
- » As detailed more fully below, IB is not an ASX participant. IB’s proprietary trading affiliate, Timber Hill Australia Pty Limited (ABN 25079993534) (“THA”) is a participant on the ASX and shall execute customer orders on the ASX. Such executed trades shall be cleared by Fortis Clearing Sydney Pty Ltd (“Fortis”). Contact details for these entities are included below.
- » The availability of additional information, including market data and educational material, is set forth below.
- » Information regarding the availability of dispute resolution forums is detailed at the end of this document.
- » IB has prepared this document in accordance with the requirements under the Australian Corporations Act (2001). While IB offers exchange traded options on worldwide exchanges, the focus of this PDS is primarily on IB’s activities in Australia. You should note that transactions on derivatives exchanges outside Australia are generally subject to the exchange rules and laws of that jurisdiction.

*The information in this Product Disclosure Statement (“PDS”) does not take into account your personal objectives, financial situation and needs. Before trading in the products referred to in this PDS you should read this PDS and be satisfied that any trading you undertake in relation to those products is appropriate in view of your objectives, financial situation and needs. Inasmuch as Interactive Brokers LLC employees are not*

*authorized to provide you with any advice or recommendation, you should consult your independent financial advisor or obtain other independent advice before trading in exchange traded options (“ETOs”).*

## **Purpose of this PDS**

Interactive Brokers LLC (ARBN 091191141; AFSL 245574) (“IB”) has prepared this PDS for your review to assist you in determining whether you should engage in trading ETOs on the Australian Stock Exchange Limited (“ASX”). This document does not constitute a recommendation or solicitation to engage in such trading. Rather, this document is meant to help you evaluate the risks and rewards of trading ASX ETOs and whether they are appropriate for your investment objectives and financial situation.

Under the Australian Corporations Act, where IB enters into an exchange traded derivative on a customer’s behalf, IB is regarded as having issued the derivative to the customer. IB’s contact details are as follows:

Interactive Brokers LLC

AFSL 245574

ARBN 091191141

One Pickwick Plaza

Greenwich, CT 06830

1 (877) 442-2757

## **Features of ETOs**

Underlying securities/approved indices - Options traded on ASX’s Options Market are only available for certain securities and approved indices. These securities are referred to as underlying securities or underlying shares. They must be listed on ASX and are selected by the Australian Clearing House Pty Limited (“ACH”) according to specific guidelines. The issuers of underlying securities do not participate in the selection of securities against which options may be listed. Index options are cash settled, rather than deliverable, because it is not practical to deliver all the securities which make up the index. You will receive a cash payment on exercising an in-the-money index option.

Contract Size - On ASX’s Options Market an option contract size is standardised at 1,000 underlying shares. That means that 1 option contract represents 1,000 underlying shares. This may change if there is an adjustment such as a new issue or a reorganisation of capital in the underlying share. In the case of index options, contract value is fixed at a certain number of dollars per index point (for example, \$10 per index point). The size of the contract is equal to the index level x the dollar value per index point (for example, for an index at 5,000 points, 1 contract would be 5,000 x \$10 = \$50,000).

Expiration - Options have a limited life span and expire on standard expiry days set by ACH. The expiry day is the day on which all unexercised options in a particular series expire and is the last day of trading for that particular series. For shares this is usually the Thursday before the last Friday in the month. For index options, expiry is usually the third Thursday of the contract month. However, ACH has the right to change this date should the need arise. In general, all options for a particular class follow one of the three quarterly cycles listed below:

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

Options are usually listed for the next three months in the quarterly expiry cycle.

Exercise (strike) Price - The exercise price is the predetermined buying or selling price for the underlying shares if the option is exercised. ACH sets the exercise prices for all options listed on ASX’s Options Market with a range of exercise prices available for options on the same expiry. New exercise prices are listed as the underlying share price moves.

**Premium** - The premium is the price of the option which is arrived at by the negotiation between the taker and the writer of the option. It is the only component of the five option components that is not set by ACH. Option premiums are quoted on a cents per share basis. To calculate the full premium payable for a standard size option contract, multiply the quoted premium by the number of shares per contract, usually 1,000.

The strike price and premium of an index option are usually expressed in points. A multiplier is then applied to give a dollar figure. For example, the multiplier may be \$10 per point, meaning that to buy an index option with a premium of 50 points, you would pay \$500 (plus brokerage and exchange fees).

### **Possible Benefits of ETOs**

ETOs may provide you with certain benefits, including:

**Risk Management** – Put options may allow an investor to hedge (protect) against a possible drop in value of the shares the investor holds. By purchasing index put options, you can lock in the value of a share portfolio. You may fear a market downturn, but have good reasons for not wanting to sell stocks. By purchasing index put options, you can make profits if the index falls. Profits on put options should compensate you for the loss of value in the stocks in the portfolio. This outcome effectively insures the portfolio at the level of the put options less the cost of the put.

**Time to Decide** –A call option determines the purchase price for the underlying shares and gives the call option holder until the expiry day to decide whether or not to exercise the option and buy the shares. Likewise, the taker of a put option until the expiry day has time to decide whether or not to sell the shares at the determined price.

**Speculation** – Provided there is sufficient liquidity, you may also trade in and out of an option position without exercising the option. If you expect a stock or index to rise, you may decide to buy call options for that stock or index. Conversely, if you expect the market to decline, you may decide to buy put options for that stock or index. Index options allow for exposure to the broader market. Investing in index options approximates trading a share portfolio that tracks a particular index. It provides exposure to the broader market which the index represents, with no specific company risk. Often index options are over benchmark indices traded by professional investors, who are less dependent on having to 'pick individual winners'.

**Leverage** - Leverage provides the potential to make a higher return from a smaller initial outlay than investing directly. However, leverage usually involves more risks than a direct investment in the underlying shares. Trading in options can allow you to benefit from a change in the price of the share without having to pay the full price of the share. Like options over a single company, index options can provide leveraged profit opportunities. When the market rises (or falls), percentage gains (or losses) are far greater for the option than rises(or falls) in the underlying index.

**Diversification** - Options can allow you to build a diversified portfolio for a lower initial outlay than purchasing shares directly.

**Income** - You can earn extra income over and above dividends by writing call options against your shares, including shares bought on margin. By writing an option you receive the option premium up front. While you get to keep the option premium, there is a possibility that you could be exercised against and have to deliver your shares at the exercise price.

### **Risks of Trading ETOs**

Transactions involving options contracts carry a high degree of risk. You should only trade ETOs if you understand the nature of the products and the extent of your exposure to risks. You should familiarize yourself with the type of option (i.e., put or call) which you contemplate trading and the associated risks. You should calculate the extent to which the value of the options must increase for your position to become profitable, taking into account the premium and all transaction costs. Before you invest in options, you should consider your experience, investment objectives, financial resources and all other relevant considerations and consult your independent financial advisor if necessary.

**Market Risks** - The market value of options is affected by a range of factors. They may fall in price or become worthless on or before expiry. Changes in the price of the underlying security may result in changes to the price

of an option, but the change can sometimes be in a different direction or of a different magnitude to the change in the price of the underlying.

Options are a wasting asset - Options have an expiry date and therefore have a limited life. An option's time value erodes over its life and this accelerates as an option nears expiry. It is important to assess whether the options you have selected have sufficient time to expiry for your view of the market to be realised.

Effect of 'Leverage' or 'Gearing' - The initial outlay of capital may be small relative to the total contract value with the result that options transactions are 'leveraged' or 'geared'. A relatively small market movement may have a proportionately larger impact on the value of the contract. This may work against you as well as for you. The use of leverage can lead to large losses as well as large gains.

Your Loss May Be Unlimited - Writing (selling) options may entail considerably greater risk than taking options. The premium received by the writer (seller) is fixed and limited, however the writer may incur losses greater than that amount. The writer who does not own the underlying shares or does not have offsetting positions potentially faces unlimited losses.

Liquidity and Pricing Relationships - Market conditions (for example, lack of liquidity) may increase the risk of loss by making it difficult to effect transactions or close out existing positions. Normal pricing relationships may not exist in certain circumstances, for example, in periods of high buying or selling pressure, high market volatility or lack of liquidity in the underlying security.

Orderly market powers - ASX and ACH have broad powers under the ASX Market Rules to take action in the interests of maintaining fair and orderly markets or of providing services in a fair and effective way. These powers include the ability to suspend trading, impose position limits or exercise limits and terminate open contracts. In some circumstances, this may affect your positions. Similarly, regulatory authorities such as the Australian Securities Investment Commission ("ASIC") may give directions to ASX or ACH, for example, to suspend dealings in products.

Trading Disputes - You should be aware that all options transactions on ASX are subject to the rules, procedures, and practices of ASX and ACH. Under the ASX Market Rules, certain trading disputes between market participants (for example, errors involving traded prices that do not bear a relationship to fair market or intrinsic value) may lead to ASX cancelling or amending a trade. In these situations the customer's consent is not required for the cancellation of a trade.

Trading Facilities - As with all trading facilities and systems, there is the possibility of temporary disruption to, or failure of the systems used in ASX's Options Market, which may result in your order not being executed according to your instructions or not being executed at all and such disruptions, failures and unavailability may result in your not being able to close out existing positions. In addition, your ability to recover certain losses may be subject to limits on liability imposed by the system provider, ASX, ACH or IB.

### **Costs & Amounts Payable Associated with Trading ETOs**

Costs – Information regarding commissions and brokerage fees for ETOs may be found on the IB website at [www.interactivebrokers.com](http://www.interactivebrokers.com). Commissions are due at the time of the trade.

Additional information on pricing and contract specifications for ASX options contracts can be found on the Australian Securities Exchange website at [www.asx.com.au](http://www.asx.com.au).

### **Amounts Payable**

#### *Margins*

With regard to ETOs, the ACH calculates margins using a system known as TIMS (Theoretical Intermarket Margining System). TIMS takes into account the volatility of the underlying security when calculating margin obligations.

The total margin for ETOs is made up of two components:

**Premium margin** is the market value of the position at the close of business each day. It represents the amount that would be required to close out your option position.

**Risk margin** covers the potential change in the price of the option contract assuming the maximum probable inter-day movement (daily volatility) in the price of the underlying security. The daily volatility figure, expressed as a percentage, is known as the margin interval.

Margins are recalculated by ACH on a daily basis to ensure an adequate level of margin is maintained. This means that you may have to pay more if the market moves against you. If the market moves in your favour, margins may fall. IB's margin requirements may be higher than those set by ACH, and IB's margin policies are available on the IB website at [www.interactivebrokers.com](http://www.interactivebrokers.com). You acknowledge, however, that **IB GENERALLY WILL NOT ISSUE MARGIN CALLS, THAT IB WILL NOT CREDIT YOUR ACCOUNT TO MEET INTRADAY MARGIN DEFICIENCIES, AND THAT IB GENERALLY WILL LIQUIDATE POSITIONS IN YOUR ACCOUNT IN ORDER TO SATISFY MARGIN REQUIREMENTS WITHOUT PRIOR NOTICE TO YOU.**

### **Exercise Policy**

ASX listed options are exercised through the IB Trader Workstation's Option Exercise window. As of the date of this PDS, the cutoff time for the exercise of ASX options is 17:00 Sydney time. All in-the-money options shall be automatically exercised.

### **Execution & Clearing Arrangements**

IB is not a participant on the ASX. IB's proprietary trading affiliate, Timber Hill Australia Pty Limited (ABN 25079993534) ("THA") is a participant on the ASX. For customers wishing to execute trades on ASX, IB shall route such orders through THA's connection to the ASX Integrated Trading System ("ITS") using an electronic communications process ("ecp") dedicated to the routing of only IB customer orders.

The business address and phone number for THA is below:

Timber Hill Australia Pty Limited  
Level 25  
56 Pitt Street  
Sydney  
NSW, 2000, Australia  
61 2 9240 5145

Orders executed for IB clients shall be cleared by Fortis Clearing Sydney Pty Ltd ("Fortis"), an ACH Clearing Participant. With respect to clients' orders executed on ASX and cleared by Fortis, Fortis carries the Clearing Obligations and any settlement obligations for all Market Transactions of THA and IB (including those of Customer). As the Clearing Participant, Fortis must settle such transactions as principal with ACH or the relevant counter-party, even though the Market Transaction may have been entered into on Customer's behalf. The Clearing Obligations and any settlement obligations of Customer are therefore owed directly to Fortis, as the Clearing Participant.

If Customer fails to pay the amounts due in respect of a Market Transaction; or if Customer fails to fulfill its settlement obligations in respect of a Market Transaction, Fortis has direct rights against Customer, including the rights of sale under the Market Rules. As such, an agreement is deemed to have been entered into between Fortis and Customer. Such deemed agreement comes into existence immediately upon the receipt by IB of an order by Customer to enter into a Cash Market Transaction.

The business address and phone number for Fortis are below:

Fortis Clearing Sydney Pty Limited  
Level 8  
50 Bridge Street  
Sydney

## **Returns**

ETOs do not entitle investors to dividends or other entitlements paid by the issuer of the underlying securities, unless the investor exercises the option to become the holder of the underlying securities at or before the relevant date for dividend or entitlement purposes.

## **Market Data**

Market data is available for ETOs by subscribing to the Australian Stock Exchange Data Feed through IB. Additional pricing information and contract specifications are available on the ASX website at [www.asx.com.au](http://www.asx.com.au).

## **Educational Booklets**

ASX has prepared a series of educational booklets relating to ETOs which are available to you via their website at <http://www.asx.com.au/resources/publications/booklets.htm>. In addition to reviewing this PDS, investors should be aware that much of the information included in this PDS overlaps with these explanatory booklets and you should review them accordingly. If you cannot access them on the ASX website, you may contact the IB Customer Service Department at 1-877-442-2757 (from the U.S.) or 312-542-6901 (from outside the U.S.). IB will provide a hard copy to you. Additional contact details are available on the IB website at [www.interactivebrokers.com](http://www.interactivebrokers.com).

## **Taxation Implications**

Your tax position when trading exchange traded derivatives will depend on your individual circumstances and you should consult your own tax advisor before making any decisions to trade. It is important to determine whether you are a trader, a speculator or a hedger as the tax treatments for each may differ. IB cannot provide a detailed treatment of the taxation issues that are relevant to trading or investing in exchange traded options, nor does IB offer any taxation advice, and you must therefore discuss these issues with your tax advisor.

Some of the issues that may be relevant to you include:

- » Australian Tax Office ("ATO") rulings need to be considered.
- » Are you classified as a trader, as a speculator or as a hedger?
- » Is an option trade on revenue account or on capital account?
- » Are there timing issues, for example, when an option is opened in one tax year and closed in the next tax year?
- » Where an option strategy is in place around the time a stock goes ex-dividend, are you in danger of not satisfying the 45-day Holding Period Rule and therefore being disqualified from receiving the franking credits attached to the dividend?
- » Could the exercise of an option position crystallise a taxation event for the underlying shareholding?

This is by no means a comprehensive list of the taxation issues of futures and options trading. The information contained in this PDS is provided for educational purposes only and does not constitute investment, taxation or financial product advice. Taxation issues will vary from investor to investor. It is therefore important to discuss your taxation situation with your independent financial advisor or accountant, to ensure that any options trades you enter into will not have adverse taxation implications to you.

## **Dispute Resolution**

If you wish to file a complaint against IB, we encourage you to send your complaint via Account Management for the most expedient and efficient handling. This can be done by clicking on "Inquiry Ticket." Under "New Ticket" select the following:

Category: Other Regulatory

Sub-category: Submit a Complaint.

Alternatively, customers may send their complaints by e-mail to [help@interactivebrokers.com](mailto:help@interactivebrokers.com); by telephone to the customer service telephone numbers listed on the IB website at [www.interactivebrokers.com](http://www.interactivebrokers.com); or by hard copy addressed to:

Legal & Compliance Department

Interactive Brokers LLC

One Pickwick Plaza

Greenwich, CT 06830

As indicated by the Financial Industry Complaints Service ("FICS"), if you have not received a satisfactory response or 45 days have elapsed, you may refer the matter to the FICS. FICS can be contacted at:

P.O. Box 579

Collins Street West

Melbourne Vic 8007

Telephone: 1300 78 08 08

Fax: (03) 9621 2291

Email: [fics@fics.asn.au](mailto:fics@fics.asn.au)

Website: [www.fics.asn.au](http://www.fics.asn.au)

This service is provided to you free of charge.

You may also refer the matter to the Australian Securities and Investments Commission ("ASIC"). ASIC may be contacted on their Infoline on 1300 300 630.

Alternatively, customers who wish to file a complaint with, or initiate an arbitration or reparations proceeding against, IB, may consult the website of, or contact, a Self-Regulatory Organization ("SRO"), e.g., the Securities and Exchange Commission ([www.sec.gov](http://www.sec.gov)), the Financial Industry Regulatory Authority ([www.finra.org](http://www.finra.org)), the National Futures Association ([www.nfa.futures.org](http://www.nfa.futures.org)), the Commodity Futures Trading Commission ([www.cftc.gov](http://www.cftc.gov)).