Target Market Determination

Exchange-Traded Options (ETOs)

Openmarkets Australia Limited (ABN 38 090 472 012, AFSL 246705) is a
Market Participant of ASX, Cboe Australia and NSX, and an
ASX Clear and Settlement Participant

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Determination Criteria

VERSION NUMBER	Target Market Determination (**TMD**) v002
PRODUCT	Exchange-traded options (**ETOs**) traded on the ASX market
START DATE	5 October 2021
ISSUER	Openmarkets Australia Ltd ABN 38 090 472 012, AFSL 246705 (**Openmarkets**)

The first and each ongoing reviews, must be completed within each consecutive 12-month period from the Start Date. Next review due 5 October 2024.

1. Introduction

This document is a TMD for the purposes of section 994B of the *Corporations Act 2001* (Cth) (**Corporations Act**) in respect of ETOs issued by Openmarkets.

This document applies to retail clients only (**Clients**) via Financial Intermediaries and advisers. It is not a product disclosure statement (**PDS**) and does not consider any Client's particular objectives, financial situation or needs. ETOs are typically suitable for Clients who have sufficient experience and understanding of the product.

Clients should refer to Openmarkets' ETOs PDS at **openmarkets.com.au/legals** as well as any other relevant Openmarkets documents, ensure you fully understand the risks involved, and consider seeking independent financial advice before deciding to trade ETOs.

Target Market

2. ETOs overview

ETOs are quoted on the ASX and traded on the ASX market. The underlying product can be an equity or an index.

An option is a contract between two parties giving the taker (**Buyer**) the right, but not the obligation, to buy or sell a security at the strike price on or before the expiration date. To acquire this right the Buyer pays a premium to the writer (**Seller**) of the contract.

ETOs may be a call option or a put option:

- A **call option** is an option that gives the Buyer the right, but not the obligation, to buy a security at the strike price on or before the expiration date.
- A **put option** is an option that gives the Buyer the right, but not the obligation, to sell a security at the strike price on or before the expiration.

An ETO has the following key attributes:

- The requirement for the Buyer to:
  - pay the premium and a brokerage fee from a linked cash account; and
  - have the funds to settle the transaction if exercised.
- The requirement for the Seller to:
  - deposit cash or collateral to cover their obligations;

- pay margins calculated by ASX Clear (the clearing and settlement facility) and the Issuer; and
- deliver the underlying security or cash settle if required upon exercise.

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

- hedge or protect a share portfolio against a drop in value or the market, or to lock in a price to purchase or sell shares;
- increase the income earned from their portfolio (through the earning of premium income);
- diversify their portfolio;
- profit from speculation.

ETOs are subject to significant risks, including (without limitation):

- Buyers of ETOs may lose their entire premium (i.e., the entire up-front amount invested) if the ETO is not "in-the-money" at the time of exercise. Sellers of ETOs are exposed to potential margin calls, which may require cash or other assets to be lodged at short notice; and
- Sellers of uncovered ETOs are exposed to potential material risk, including material losses for sellers of uncovered put options and potentially unlimited losses for sellers of uncovered call options.
- Generally speaking, ETOs are not suitable for Clients who are unable to withstand losses without material personal hardship.
- ETOs are also typically only suitable for investors who have sufficient experience and understanding of the product;
- ETOs are leveraged instruments. Leverage can magnify losses as well as gains. In other words, a high degree of leverage involved in many ETOs can work against a Client, multiplying their losses if the market moves against them; and
- ETOs have a limited life span and will expire. Their time value falls as they approach their expiry date, and they are worth nothing after they expire (if not exercised). Accordingly, Clients trading ETOs should actively manage their open positions, particularly as expiry dates approach.

For more information on the benefits and risks of ETOs, please refer to the Openmarkets' ETO PDS available at **openmarkets.com.au/legals**

3. Target Market for ETOs

Given the diverse nature of ETOs and different strategies that may be associated with trading ETOs, Openmarkets consider that the Target Market for ETOs are Clients that falls within one (or more) of the below categories, noting there may also be some overlap between categories:

- High Risk Tolerance Investors—Clients seeking to make profit via trading;
- Risk Mitigation Investors—Clients seeking to hedge potential risk from other investments or exposures to; or lock in a price to purchase or sell underlying investments; and
- Premium Generation Investors—Clients seeking to earn income by selling ETOs covered by holdings of underlying assets.

Note that it is not necessary for a Client to fall within all three categories; it is sufficient for a Client to fall within one of the above categories to be within the Target Market for ETOs.

4. Client objectives

Openmarkets may profile Clients and review Clients' financial and related information as part of an upfront and ongoing due diligence assessment process, depending upon the option trading strategy being requested by the Client.

a. **High Risk Tolerance Investors** are Clients likely to have a higher risk appetite and who are seeking risk adjusted returns and are prepared to suffer material losses (and able to withstand such losses).
   - Likely objectives: Clients will typically use existing assets to support leverage to seek higher returns with corresponding higher risk.
   - Likely financial situation: will have a relatively high and regular income and/or substantial holdings of capital available for investment. Can withstand losses from trading without causing distress or material impact on living standards. Have available liquid assets to fund potential margin calls. Have a good understanding of ETOs and trading strategies.
   - Likely needs: Wish to use spare capital to make enhanced returns.

b. **Risk Mitigation Investors** are Clients who are likely to be relatively risk averse and are looking to protect previous gains, lock in purchase or sale prices, or mitigate against potential future losses.
   - Likely objectives: Protect previous gains or mitigate against potential future losses and/or lower the cost of acquiring underlying assets.
   - Likely financial situation: Have existing investments or exposures which the Client wishes to hedge.
   - Likely needs: Loss or profit protection.

c. **Premium Generation Investors** are likely to be Clients with a moderate risk appetite who are looking to increase their yield but are prepared to have the options exercised against them.
   - Likely objectives: Increase the income generating capacity of their portfolio.
   - Likely financial situation: Hold existing positions in underlying stocks. Require a regular income. Can address capital gains tax position if ETOs sold are exercised against them.
   - Likely needs: Increase income return.

Across all three categories, these Clients in the Target Market will have sufficient experience and understanding of ETOs.

5. Different ETO strategies

Openmarkets has categorised different ETO strategies into the following:

- **Level 1**: Buying call and put options
- **Level 2**: Selling covered calls (buying the underlying, and selling a call option)
- **Level 3**: Spreads and various defined multi-leg strategies potentially including uncovered legs

- **Level 4**: Selling uncovered call and put options in isolation or as part of a sophisticated options strategy

Openmarkets expect:

a. **High Risk Tolerance Investors** may engage in Level 1, 2 ,3 and 4 ETOs strategies being consistent with their likely objectives, financial situation and needs. In particular the potential enhanced returns and this type of client has the financial means and ability to bear any potential losses without material hardship.
b. **Risk Mitigation Investors** will most likely only engage in Level 1, 2 or 3 strategies because they can offer them the ability to financially protect or lock-in a previous profits or forthcoming profits from exposure to an underlying asset and/or protect against future losses.
c. **Premium Generation Investors** are most likely be trading predominantly in Level 2 and 3 ETOs with potential for increased income, and this class of Client has the financial means and ability to bear any potential losses without material hardship.

Openmarkets currently only provide access to Level 1 ETOs, therefore our main class of Clients will be High Risk Tolerance and Risk Mitigation Investors.

6. Appropriateness statement

ETOs will generally not be suitable for Clients outside the Target Market. Potential categories would include:

- Clients who do not understand the risks of ETOs as applicable to their proposed trading; and
- Clients who cannot bear the consequences of potential losses without material impact on their standard of living.

Distribution obligations

7. Condition 1: Authorisation

This condition applies to all conduct.

A distributor must:

- hold an appropriate Australian Financial Services License (**AFSL**) or be an authorised representative of an AFSL holder; and
- if the distributor is not Openmarkets comply with the terms and conditions of any relevant distribution agreement or arrangement with Openmarkets.

This condition is appropriate as it ensures distributors are appropriately authorised to provide the relevant regulated financial services and will comply with the commercial terms agreed between the distributor and Openmarkets.

8. Condition 2: General advice

A distributor may provide general advice (such as marketing) as to the product through limited public channels, such as:

- advertising available on specialist periodicals related to purchasing shares (including relevant social media), physical banners, brochures, and other marketing material;
- Openmarkets or its related entities:
- websites; and
- call centre (if applicable).

This condition is appropriate as the Target Market is relatively narrows as the product is specialised. It is intended that these channels may be available to persons who may not at the time require this kind of product. This is because the distributor of the product is subject to Distribution Conditions 1, 3, 4 and 5 which will ensure that the product is only issued to persons for whom it will be appropriate.

9. Condition 3: Retail product platform

A distributor must only engage in retail product distribution conduct (other than general advice) through Openmarkets' platform.

This condition is appropriate as the Target Market for issuance of this product is narrow—limited to those that understand the benefits and risks of purchasing securities of this nature. It is also appropriate as Openmarkets has distributed this product using this method, with considered risk to consumers.

10. Condition 4: Retail product differentiation

A distributor must only engage in retail product distribution conduct (other than general advice) if it has identified the key differences between:

- the product (including the specific product option requested by the consumer); and
- the other product options for the product and other ETOs issued by the Issuer.

This condition is appropriate as it requires a distributor to confirm that the consumer is in the Target Market.

11. Condition 5: Retail client knowledge

A distributor through Openmarkets' platform must only engage in retail product distribution conduct (limited to dealing in the product) if it has identified that the consumer has sufficient knowledge and understanding of the product.

This condition is appropriate as it requires a distributor to confirm that the Client understands the product (including its benefits and risks) and fall within the Target Market as set out in this TMD.

Review triggers

The review triggers that may suggest that the TMD is no longer appropriate and a review of the TMD should be undertaken, include:

MATERIAL COMPLAINTS	Appropriate and which should trigger a review
FEEDBACK FROM DISTRIBUTORS	Reports received from distributors, or consistent feedback from distributors which suggests that the Target Market may no longer be appropriate.
SUBSTANTIAL PRODUCT CHANGE	Openmarkets makes a substantial change to the product terms, conditions, or key attributes.
PRODUCT PERFORMANCE	• Evidence that Client usage is significantly different from expectations of the Target Market (e.g., a different product purpose) • Evidence that product is no longer meeting the financial situation, needs and objectives of the Target Market for whom the product was designed • Evidence of substantial sales outside of the Target Market.
SIGNIFICANT CHANGE TO THE EXTERNAL ENVIRONMENT	• Regulatory or legislative environment for this product. • Economic and market conditions.
NOTIFICATION FROM ASIC	Openmarkets receives a notification from ASIC requiring immediate cessation of product distribution or particular conduct in relation to the product.
SIGNIFICANT DEALINGS	Evidence that product or distributor conduct are significantly different to the TMD.

Openmarkets TMD review will be done at least every 12 months, and more frequently if a review trigger occurs.

Distributor reporting

The distributor must provide the following information in writing to Openmarkets as soon as practicable or within ten (10) Business Days after the end of the relevant reporting period.

COMPLAINT INFORMATION	On a quarterly basis, complaints related to risks, key terms, conditions or features of this product, including: • The number of complaints; • The nature and circumstances of the complaints; and • Whether or not there has been or is likely to be consumer harm or detriment, and if so, the nature of the harm or detriment.
SIGNIFICANT DEALINGS OUTSIDE THE TARGET MARKET	If a distributor becomes aware of a significant dealing in the product or distributor conduct that is not consistent with the TMD, they must notify the issuer in writing as soon as practicable, and in any even within ten (10) Business Days after becoming aware.