

# OptionWriter Product Disclosure Statement

## Morgan Stanley Wealth Management Australia Pty Ltd

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This is an important document. Please read it carefully and make sure you understand it before accepting its terms. Retain a copy of this document for your reference.

## Disclosures

**PRODUCT DISCLOSURE STATEMENT:** This Product Disclosure Statement (“PDS”) dated **1 October 2015** has been prepared by Morgan Stanley Wealth Management Australia Pty Ltd (“Morgan Stanley Wealth Management”, “we”, “our” or “us”). Pursuant to the Corporations Act, Morgan Stanley Wealth Management is deemed to be the issuer of ASX Exchange Traded Options (“ETOs”).

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. A PDS In-use Notice has been lodged with ASIC in connection with this PDS. ASIC takes no responsibility for the contents of this PDS. ETOs issued by Morgan Stanley Wealth Management are interchangeable with contracts issued by any other Participant of ASX.

**INVESTMENT DECISIONS:** It is not possible in a document of this type to take into account the investment objectives, financial situation and particular needs of each reader. Neither Morgan Stanley Wealth Management nor any affiliate business guarantees the performance of the ETOs. 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 the ETOs. Before making a decision whether to invest in ETOs, investors should speak to their financial adviser and obtain independent tax advice, taking into account their own particular needs and financial circumstances. Nothing in this PDS is, or may be relied upon as a representation of the future

performance of the Underlying Securities or the suitability of ETOs to an investor’s needs.

**UNDERLYING SECURITIES:** References in this PDS to Underlying Securities are included solely for the purpose of identification of the securities to which the ETOs relate. Such references are not to be construed as any express or implied endorsement of the listed entity or any affiliate of the listed entity of the Underlying Securities, nor does any such listed entity or any affiliate of the listed entity accept any responsibility for any statement in this PDS nor undertake any liability in respect of the ETOs.

**JURISDICTION AND SELLING RESTRICTIONS:** This PDS is not an offer or invitation in relation to ETOs in any place in which, or to any person to whom, it would not be lawful to make that offer or invitation. The distribution of this PDS outside Australia may be restricted by laws of places where it is distributed and therefore persons into whose possession this document comes should seek advice on and observe those restrictions. Failure to comply with relevant restrictions may violate those laws.

**TERMS OF USE:** ETOs which are entered into between an applicant and Morgan Stanley Wealth Management are subject to Part C of the Margin Lending Terms and Conditions (“Agreement”), a summary of which is included in Part 6 of this PDS (the “Terms”). These Terms may include any additional terms as may be agreed between Morgan Stanley Wealth Management and you before your application is accepted.

**DEFINED WORDS:** Words and phrases appearing in capital letters have the meaning given to them in the Agreement.

Part 1: General Information About ETOs

Part 2: How Do ETOs Work?

Part 3: Understanding the Risks

Part 4: Tax Summary

Part 5: Dispute Resolution

Part 6: Summary of Terms of Use and Information Collection Statement

## Disclaimer

The securities and ETOs markets are volatile. Investments in securities and ETOs products involve a high degree of risk and are not suitable for all persons. Losses may be incurred as a result of movements in the Underlying Securities. **If you are in any doubt as to the suitability of ETOs you should contact your financial adviser before entering into an ETOs contract.**

## Who is Morgan Stanley Wealth Management?

### **Morgan Stanley Wealth Management is the issuer of the ETOs.**

Morgan Stanley Wealth Management provides a range of financial services to individual investors, institutions and private businesses including brokerage and investment advisory, comprehensive financial and estate planning, superannuation and cash management.

In Australia, Morgan Stanley Wealth Management is a Participant of the ASX, a Settlement Participant of ASX Settlement and a Clearing Participant of ASX Clear. Please refer to our website for more information [www.morganstanley.com.au](http://www.morganstanley.com.au).

## **Purpose of a Product Disclosure Statement (PDS).**

This PDS has been prepared by Morgan Stanley Wealth Management to assist you in considering if ETOs are suitable for you. It is an important document and you should read it in full. If you have any questions, please contact your financial adviser.

Please note this PDS does not take into account your personal objectives, financial situation and needs. Prior to transacting in ETOs, please read this PDS and contact your financial adviser to consider if transacting in ETOs is suitable for you.

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## Key Features of Options

Features	Equity Options	Index Options
<b>Description</b>	Refer to Part 1	Refer to Part 1
<b>Underlying asset</b>	Underlying Securities*	Underlying Index
<b>Contract size</b>	100 shares (as adjusted from time to time)	Not applicable
<b>Exercise price</b>	Expressed in dollars and cents	Expressed in points
<b>Last Trading and Expiry Day</b>	Thursday before the last Friday in the expiry month	Last trading day before expiry. The third Thursday of the month.
<b>Exercise style</b>	American	European
<b>Settlement</b>	Deliverable	Cash settled
<b>Characteristics</b>	Refer to Part 1	Refer to Part 1
<b>Benefits</b>	Refer to Part 1	Refer to Part 1
<b>Suitable for</b>	Experienced investors who understand and accept the risks associated with leverage and ETOs.	Experienced investors who understand and accept the risks associated with leverage and ETOs.
<b>Risks</b>	Refer to Part 3	Refer to Part 3

\*Underlying Securities are those securities approved by Morgan Stanley Wealth Management for the Margin Lending facility. The full list may be viewed on our website at [www.morganstanley.com.au/marginlending](http://www.morganstanley.com.au/marginlending).

This table is a summary of the key features of options. Investors should read the entire PDS, including the Terms contained in Part 6, before making any investment decision. Fees payable from time to time are set out in Part 2 of this PDS. Premiums will be charged as specifically agreed between Morgan Stanley Wealth Management and you and under the Terms.

# Part 1 General Information About ETOs

## Exchange Traded Options (ETOs)

ETOs are options that are listed and able to be traded on the Australian Securities Exchange Limited (“ASX”).

The ASX publishes a number of explanatory booklets in relation to ETOs, including:

- *Options - A Simple Guide*
- *Understanding Options Trading*
- *Margins*
- *Options Strategies*
- *Index Options*

If you are trading ETOs for the first time, we will give you a copy of the ASX booklet, “**Understanding Options Trading**”. You can view these ASX booklets, free of charge, by visiting the ASX website at [www.asx.com.au](http://www.asx.com.au) or you can request a copy from your financial adviser.

### About ETOs

An ETO is a contract that is bought and sold on the options market operated by the ASX. It is a contract between two parties, which gives the buyer or **taker** of the contract the right, but not the obligation, to buy or sell a parcel of shares (the “**Underlying Securities**”) at a predetermined price on or before a predetermined date. In order to acquire this right the taker pays a premium to the seller of the ETO, the **writer**.

ETOs are standardised contracts, and the specifications are determined by the ASX, not Morgan Stanley Wealth Management. Any ETO bought or sold through Morgan Stanley Wealth Management can be bought or sold through any other Participant of the ASX.

### Types of ETOs

There are several types of ETOs. For a full list of the approved underlying securities and indices, please refer to [www.asx.com.au/options](http://www.asx.com.au/options). Below is a summary of the types of ETOs. For more information please refer to “What is an Option” in the ASX booklet, “**Understanding Options Trading**”.

### Call options

Call options give the taker the right, but not the obligation, to buy the Underlying Securities at a predetermined price, on or before a predetermined date. Call options are generally used when the taker believes that an Underlying Security price will rise. For more information on call options, please refer to “What is an Option” in the ASX booklet, “**Understanding Options Trading**”.

### Put options

Put options give the taker the right, but not the obligation, to sell the Underlying Security at a predetermined price, on or before a predetermined date. Put options are generally used when a taker believes that an Underlying Security price will fall. The taker of a put is only required to deliver the Underlying Security if they exercise the option. For more information on put options, please refer to “What is an Option” in the ASX booklet, “**Understanding Options Trading**”.

### Index options

Index options give the taker exposure to the securities comprising a sharemarket index. Index options are used when the taker wants to trade a view on the market as a whole or a market sector covered by a particular index. Index options are usually European (i.e. exercisable only on the Expiry Date) and are cash-settled (i.e. a cash payment is made on exercise rather than delivery). For more information, please refer to “Trading Index Options” in the ASX booklet, “**Understanding Options Trading**”.

### Features of ETO Contracts

The significant features common to all ETO contracts are:

**CONTRACT SIZE:** each ETO contract represents 100 Underlying Securities (subject to adjustment for rights, bonus issues and other capital adjustment events). Please refer to “Adjustments” on page 6.

**DIVIDENDS AND VOTING RIGHTS:** investors have no rights to dividends or voting until the exercise and transfer of the underlying securities.

**EXERCISE PRICE OR STRIKE PRICE:** this is the price at which you may buy or sell the Underlying Securities (or Index) if you exercise your ETO.

**EXERCISE STYLE:** this describes when you may exercise your ETO. ETOs may be 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. ASX exchange traded equity options can be American style or European style options. ASX exchange traded index options are European style.

**EXPIRY DATE:** this is the date on which all unexercised ETOs in a particular series expire and is the last day of trading for that particular series.

**INDEX OPTIONS:** 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 fees and commissions).

**MARGINS:** your ETOs may give rise to margins payable by you if the market moves against your position, see Part 2 for more information.

**PREMIUM:** this is the market price of the ETO and varies according to market forces. It is the amount payable by the taker to the writer for entering into the ETO. Premiums for share options are quoted on a cents per share basis whilst premiums for index options are quoted in points. To calculate the premium payable, multiply the contract size by the premium. See Part 2 for more information.

**UNDERLYING SECURITIES OR INDEX:** these are the securities or indices over which ETOs are available. The securities may either be an ASX listed share or a share price index (in the case of an index option). The ASX booklet, “**Understanding Options Trading**”, provides further information on these and other ETO features.

## Benefits of ETOs

The benefits investors may obtain by trading in ETOs are:

**EXTRA INCOME:** You can earn extra income over and above dividends by using various ETO strategies. For example, you can write (sell) call options against shares you already own, but if the ETO is exercised, you will have to deliver the underlying shares. For more information on ETO trading strategies, please refer to the ASX booklet, “**Understanding Option Strategies**”.

**RISK MANAGEMENT:** investors can **hedge** their share portfolio from a drop in value. Purchasing put options potentially allow investors to hedge their shares against a fall in price.

**DIVERSIFICATION:** ETOs may allow you to build a diversified portfolio for a lower initial outlay than purchasing the underlying securities directly.

**LEVERAGE:** ETOs provide you with leverage in that the initial outlay of capital may be small relative to the total contract value. But leverage involves greater risk for writers of an ETO than a direct share investment, because if the share price moves against the writer of an ETO, the losses for ETOs will be greater than for a direct share investment. See Part 3 for more information.

Different ETO strategies allow you to take advantage of various market situations. Some can be quite complex and involve varying levels of risk. In relation to ETOs you can attend one of the ASX’s options courses to learn about these strategies, read the ASX booklet, “**Understanding Option Strategies**” or contact your financial adviser.

Investors in index options may also gain:

- **Exposure to the Broader Market:** *Investing in index options approximates trading a share portfolio that tracks a particular index.*
- **Protection for Share Portfolio:** *You can partially protect your portfolio against falls in a share market index.*

## Who should invest in ETOs?

Trading in ETOs has a higher level of risk than equities and is not suitable for all retail investors. You should invest in ETOs only if you understand how they work; your rights and obligations; and if you accept the risks.

ETOs may not be suitable for some retail investors, for example investors with a low risk profile should not enter into ETO trades that have the potential for unlimited losses. As the suitability of ETOs for you will depend on your individual circumstances, before you invest, speak to your financial adviser who can assist you in determining if ETOs are suitable for you.

ETOs may be suitable for investors who wish to undertake the following strategies:

**CAPITAL PRESERVATION:** use ETOs to protect investments from capital losses;

**INCOME GENERATION:** use ETOs to enhance portfolio income by potentially forgoing capital gains.

## Part 2 How Do ETOs Work?

This section provides some practical examples of how ETOs work in conjunction with other investment strategies. It also provides a description of some of the costs involved in using OptionWriter. A summary of the Terms on which Morgan Stanley Wealth Management makes the ETOs available to you are set out in Part 6 of this PDS. Investors must read and understand each section of this PDS before applying for ETOs.

### Examples

#### Writing call options over existing shares to generate extra income.

The key benefit to selling a call option is that you are paid a premium by a third party. This allows you to earn additional income on shares held against a margin loan under the Margin Lending facility. This extra income can then be used to reduce your loan balance and help cover interest costs.

Let’s assume that you hold 100 XYZ shares. You agree to sell XYZ if the share price reaches \$30.00, however they are currently trading at \$28.50. You can write a call option over your XYZ shares, which obliges you to sell them at \$30.00, however the purchaser pays you a premium for the right to buy the XYZ shares from you. In the event that your shares do not trade at \$30.00, the option won’t be exercised and you can keep the premium paid to you, and therefore can earn extra income on your portfolio.

#### Combining put options with your margin loan to protect your portfolio.

Buying a put option allows you to lock in the sale price of your shares. If you buy a put option, OptionWriter gives you value for this protection and incorporates this into your margin loan, therefore protecting your investment.

Let’s assume you hold 100 XYZ shares that are currently trading at \$30.00. You are concerned that XYZ may fall in value, but if it falls you would be prepared to sell your XYZ shares at \$29.50 to protect yourself from any losses. You pay an amount (or premium) to the ETO seller for this right. In the event that your shares do fall, you may sell them for \$29.50 by exercising your put option. However, if the shares rise in value you take no action and instead benefit from the rise in share price. The ETO seller keeps the premium you paid. This means that you have essentially insured your shares against a fall in the market price below \$29.50 for the cost of the premium amount paid.

### Opening an option position

The establishment of a contract is referred to as opening a position. The taker of an option then has three choices:

1. The taker can exercise the option; or
2. The taker can hold the option to expiry and allow it to lapse; or
3. The taker can close out their position.

The writer of an option has two choices:

1. Let the option go to expiry and risk being exercised against (if it is not exercised against, it will expire without any further obligation or liability on the writer); or
2. Close out the option (provided it has not been exercised against).

## Closing out of option contracts

An option position may be ‘closed out’ by placing an order equal and opposite in effect to your original order, effectively cancelling the open position. An investor would close out an option contract:

1. when there is a risk of unwanted early exercise (unless an index option as they can only be exercised on expiry day);
2. to take a profit; or
3. to limit a loss.

It is important to 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 through the process of novation. ASX Clear is able to substitute a new buyer when an existing buyer sells to close their position. The process of novation is discussed in more detail below in the section entitled “Trading and clearing options.”

If you are trading through Morgan Stanley Wealth Management, our policy is to automatically exercise any “in-the-money” options on expiry date. Please advise your Morgan Stanley Wealth Management financial adviser if you do not wish this to occur. The latest time at which Morgan Stanley Wealth Management can accept an exercise instruction in order for it to be exercised on that day is 5 p.m., unless otherwise agreed with your Morgan Stanley Wealth Management financial adviser.

If you are trading through another broker, they may have a different policy. Please contact your broker for details of their policy.

## What Are the Costs?

### Premium

The price or premium of an ETO is payable by the taker (buyer) to the writer (seller) on settlement (i.e. one day after purchase). The premium is a function of the difference between the exercise price of the ETO and the market price of the Underlying Security (the intrinsic value) and the amount an investor is prepared to pay for the possibility that the price of the ETO might move in their favour during the life of the ETO (the time value).

Current premiums for ETOs are available from your financial adviser, on the ASX website at [www.asx.com.au/options](http://www.asx.com.au/options) and in the media (e.g. the Australian Financial Review). To calculate the full premium payable for a standard size ETO contract, multiply the quoted premium by the number of shares per contract, usually 100. For example, a quoted premium of 16 cents represents a total premium of \$16 ( $\$0.16 \times 100$ ) per contract. To calculate the full premium payable for an index option, multiply the premium by the index multiplier. For example, a premium of 30 points, with an index multiplier of \$10 represents a total premium cost of \$300 per contract.

For more information, please refer to “Option Pricing Fundamentals” in the ASX booklet, “**Understanding Options Trading**”.

### Brokerage and exercise fees

You will be required to pay brokerage and exchange fees when you trade ETO contracts. You should speak with your Morgan Stanley Wealth Management financial adviser to determine the fees you will be charged.

### Commission

If you are trading through Morgan Stanley Wealth Management, a percentage of the brokerage payable for ETOs bought or sold through Morgan Stanley Wealth Management will be used to remunerate the Morgan Stanley Wealth Management financial adviser providing you with advice and executing your order.

Your financial adviser is remunerated on a base salary plus commission basis and may also receive a bonus under a balanced scorecard bonus plan. Commission is payable once the financial adviser’s base salary is covered and ranges from zero to 57% of the fees and other revenue received by Morgan Stanley Wealth Management which are attributable to the financial adviser (“Attributable Fees”), less any applicable fees and deductions. The exact rate is determined by reference to the brokerage and fee revenue generated by your financial adviser for Morgan Stanley Wealth Management each month. Applicable fees and deductions may include referral fees, business development costs, discount adjustments for any fees charged which are below Morgan Stanley Wealth Management’s standard fee schedule and damages and losses.

Your financial adviser may also be eligible to receive additional incentives of up to 20% of Attributable Fees based upon factors including but not limited to achieving revenue targets, regulatory compliance and customer satisfaction.

If your financial adviser performs additional managerial roles for Morgan Stanley Wealth Management, they will be eligible to receive the commission referred to above in addition to their base salary. In addition to this, they will be eligible to receive a discretionary bonus based on their performance in their managerial role.

Adviser remuneration is only paid where permitted under the Government’s Future of Financial Advice (“FOFA”) reforms, for example where the payment is made under a grandfathered arrangement, where it relates to exempt remuneration such as brokerage and insurance commission, where you have consented to the payment being made or where it is made under a balanced scorecard bonus plan.

Morgan Stanley Wealth Management employees and directors receive salaries, bonuses based on performance criteria and other benefits from us.

Your financial adviser is also required to set out the remuneration and commissions they receive in the Statement of Advice which they must give to you when providing personal advice. If you are trading through another broker, please contact them to find out the amount of any commissions payable.

### Transaction costs

The following transaction costs are payable either upon settlement or exercise, depending on the transaction:

**ASX CLEAR FEES:** ASX Clear charges a registration fee of \$0.13 per equity option contract, excluding GST. If you exercise an option or get assigned on an option, ASX Clear charges an exercise fee of \$0.05 per contract, excluding GST.

In the case of index options, ASX Clear charges a registration fee of \$0.45 per contract, excluding GST, and an exercise fee of \$0.35, excluding GST, per contract.

The exact cost of your transaction will be disclosed on your confirmation. Some fees that we charge may be tax deductible. You must confirm with your own tax adviser or accountant, in relation to your specific situation.

**STAMP DUTY:** No stamp duty is payable on option transactions or securities transactions arising from options exercise.

## Margins

ASX Clear Margins will only be payable by writers or sellers of options. A margin for an option is an amount calculated by ASX Clear to cover the risk of financial loss on an option contract from an adverse market movement. The margin is designed to ensure you can meet your obligation, which may arise if, for example, the taker of the option that you wrote exercises their position.

In calculating the margin, ASX Clear takes into account the market value of the particular position at the close of business each day representing the amount that would be required to close out your option position (premium margin) and the daily volatility in the price of the Underlying Security (risk margin).

ASX Clear publishes the margin interval for all option classes on its website. You can find this figure on the Option Margin Intervals section on the ASX website at [www.asx.com.au](http://www.asx.com.au).

Margins are recalculated on a daily basis to ensure an adequate level of margin cover is maintained. This means that you may have to increase your level of margin cover if the market moves against you, or your margins may be reduced if the market moves in your favour.

Settlement requirements for trading ETOs are strict. You must pay any margin calls within 24 hours of being advised by Morgan Stanley Wealth Management or Morgan Stanley Wealth Management may take action to close out your position without further reference to you, and you will bear all the losses, fees, and fines incurred. Any interest levied on late settlement and margin payments is due and receivable at the time the amount is levied and certainly within one business day of a demand being made by Morgan Stanley Wealth Management.

Margin Lending requires all sold calls to have stock specific cover in place. Once the stock covering the sold call is lodged with ASX Clear, no margin will be calculated by ASX Clear.

## Collateral

Morgan Stanley Wealth Management will require you to provide cash or Collateral to cover your margin obligations. The minimum margin required is set by ASX Clear, but we may set higher margin requirements from time to time. The Collateral acceptable to ASX Clear includes shares, and Austraclear pledged securities and is published on the ASX website at [www.asx.com.au/options](http://www.asx.com.au/options).

ASX Clear applies a “haircut” (i.e. a discount) to the value of some Collateral to protect against a sudden fall in the value of the Collateral held. For example, ASX Clear generally applies a 30% haircut to the current market value of shares. Where Collateral is provided, Morgan Stanley Wealth Management may realise this Collateral to meet your obligations to ASX Clear, without any notice to you. If you wish to provide Collateral you must sign the options Collateral Addendum provided in the Application Form.

## Liability

Trading ETOs may result in a loss situation if the ETOs 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). The amount of the loss for a taker is limited to the premium. However, the liability of a writer is potentially unlimited.

## Adjustments

ASX may in accordance with its rules make an adjustment to any of the specifications of an ETO 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 Seller (writer) and Buyer (taker) 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 ETO series, ASX Clear will make a corresponding adjustment to the terms of contracts which are already open.

ASX has issued an Explanatory Note for Option Adjustments which can be found on their website. This provides further information regarding ASX option adjustments.

## Other Significant Characteristics of ETOs

### Trading and clearing ETOs

ETOs are traded on the ASX's trading platform and cleared through ASX Clear. Participants of ASX must comply with the operating rules of the ASX. Participants who clear ETO contracts must comply with the operating rules of ASX Clear.

ASX Clear stands between the buying and selling brokers (the ASX participants) and guarantees the performance to each of them, but does not have an obligation to you. This process is known as ‘novation’. The rules of the ASX's equities clearing house govern arrangements once a deliverable option has been exercised.

### National Guarantee Fund

The National Guarantee Fund (NGF) will apply to ETOs. The NGF is a compensation fund designed to protect investors in their dealings with stockbrokers (Participants of ASX).

The NGF can assist investors in two ways:

- *Provides completion of trades (in certain circumstances) where a stock option is exercised; and*
- *If a broker dealing in options later becomes insolvent, you may make a claim with the NGF for any property that has not been returned to you or dealt with in accordance with broker's obligations.*

For more information on the protections offered by the NGF see [www.segc.com.au](http://www.segc.com.au).

## Part 3 Understanding the Risks

You should be aware of the risks associated with investing in ETOs. These risks include:

- *margin payments*
- *leverage*
- *market risks*
- *illiquidity*
- *volatility*

### Risk Disclosure Statement for ETOs

This outline of risks does not purport to disclose all aspects of risk associated with the trading of ETOs. Trading in ETOs is not suitable for some investors. In light of the risks associated with trading ETOs, you should invest in them only if you understand the nature of the products (specifically your rights and obligations) and the extent of your exposure to risk.

Before you invest, you should carefully assess your experience, investment objectives, financial resources and all other relevant considerations and discuss these with your financial adviser. You should not rely on this PDS as a complete explanation of all of the risks of investing in ETOs.

### Specific Product Risks

#### ETOs

Purchasers and sellers of ETOs should be familiar with the mechanics of call and put options, the nature and extent of the risks, and the rights and obligations associated with each.

The value of an ETO will depend on factors such as the exercise price, the price of the underlying shares or the level of the underlying index, the volatility of the underlying shares or the underlying index, the time remaining to the expiry date, interest rates, dividends and other risks applicable to markets.

The purchaser of an ETO has a known and limited potential loss. If a purchased ETO expires worthless, the purchaser will lose the total value paid for the ETO (known as the premium), plus transaction costs.

Selling (“writing”) ETOs may entail considerably greater risk than purchasing ETOs. The premium received by the seller of an ETO is fixed and limited, however the seller may incur losses greater than that amount.

### Risks Relevant to All Options

#### Effect of ‘leverage’ or ‘gearing’

Transactions in all options carry a degree of risk. The initial outlay of capital may be small relative to the total contract value so that transactions are ‘leveraged’ or ‘geared.’ A relatively small market movement may have a proportionately larger impact on the value of the contract. This may work for you or against you. You may sustain a total loss of margin funds deposited with your broker.

If the market moves against your position or margin levels are increased, you may have to pay substantial additional funds on short notice to maintain your position, or upon settlement of contracts. If you fail to comply with a request from your broker for additional funds within the time prescribed, your broker may sell down or close out your position and you will be liable to your broker for any loss that might result.

#### Market risks

Options may fall in price or become worthless at or before expiry. Changes in the price of the Underlying Security may result in changes to the price of an option, which may have a different result or a result of greater magnitude than the change in the price of the Underlying Security. Under certain conditions, it may become difficult or impossible to close out a position. This can happen where there is a significant change in price over a short period of time.

#### Terms and conditions of contracts

You should ask your financial adviser about the terms and conditions of any options contract you are considering investing in. Under certain circumstances, the specifications of outstanding options may be modified by ASX or by ASX Clear.

#### Suspension or restriction of trading and pricing relationships—illiquidity

Market conditions (for example, illiquidity) or actions by ASIC, ASX or ASX Clear (e.g. the suspension of trading in an option) may increase the risk of loss by making it difficult or impossible to effect transactions or close out existing positions.

Normal pricing relationships may not exist in certain circumstances (for example, in periods of high buying or selling pressure, high market volatility or illiquidity in the market for a particular option). ASIC, ASX and ASX Clear have broad powers under their Rules to take action in the interests of maintaining fair and orderly markets and this may affect your positions.

#### Margins, cash and property

Your broker may be required to pay margins or provide property as Collateral to ASX Clear in connection with their dealings in options for you. Under your client agreement, your financial adviser will require you to provide them with money or some form of security to enable them to manage the risks associated with their dealings in options for you. If the market moves against your position or margin levels are increased, you may be called upon to pay substantial additional funds on short notice to maintain your position, or upon settlement of contracts. If you fail to comply with a request for additional funds within the time prescribed, Morgan Stanley Wealth Management may sell down or close out your position and you will be liable for any loss that might result.

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

#### Commission and other charges

Before you give instructions to your broker to deal in any ETOs, you should obtain a clear explanation of all commissions, fees and other charges for which you may be liable.

#### Trading facilities

As with all trading facilities and systems, the systems used in the market are vulnerable to temporary disruption or failure, which may result in your order not being executed according to your instructions or not executed at all. Your ability to recover certain losses may be subject to limits on liability imposed by the system provider, ASIC, ASX, ASX Clear or your broker.

## Writing call options over existing stock holding

The maximum profit from the call option you can make is the premium received from writing the call. You risk forgoing any opportunity to benefit from any increase in the value of the underlying share price above the strike price of the call option sold. If you are assigned, you must sell the underlying share at the strike price. There remains the risk that the value of the share held will decline.

## Options are a wasting asset

ETOs have an expiry date and therefore a limited life. An ETO's time value erodes over its life and this accelerates as an ETO nears expiry. It is important to assess whether the ETOs you select have sufficient time to expiry for your market views to be realised.

## Volatility

Volatility is a measure of the expected amount of fluctuations in the price of a particular security. The higher the volatility of an Underlying Security, the greater the potential returns and losses for the ETO.

You may want to use the Theoretical Options price calculator at [www.asx.com.au/options](http://www.asx.com.au/options) which will demonstrate, for instance, how the volatility of the markets, time value or movements in interest rates can affect the value of the ETOs you are considering investing in.

## Trading

Morgan Stanley Wealth Management has the ability to amend or cancel the trade and any Confirmation or Contract Note issued as stated in the Agreement. This could cause you to suffer loss or increase your loss.

## Cooling Off Period

Note there is no cooling off period for ETOs.

# Part 4 Tax Summary

The information below is based on existing tax law and established interpretations as at the date of this PDS.

The taxation information provided below 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 revenue or capital account.

The taxation of ETOs can be complex and may change over time. Accordingly, you are recommended to seek professional tax advice before entering into or disposing of an ETO.

Morgan Stanley Wealth Management and its employees aren't able to give tax or legal advice. You should not use or rely on this information solely when making decisions about your investments.

You should always seek advice based on your particular circumstances from an independent tax adviser.

## Implications for Australian resident investors

### Revenue account.

**SELLER OF THE OPTION:** Where a Seller (writer) of an option sells (writes) 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 ASX Clear 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 ASX Clear account. These margins 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.

**BUYER OF THE OPTION:** A Buyer (taker) 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.

Where an option on revenue account lapses, there are no further tax implications. 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.

**SELLER OF THE OPTION:** 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.

**EXERCISE OF A CALL OPTION:** 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.

**EXERCISE OF A PUT OPTION:** 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.

**BUYER OF THE OPTION:** A Buyer (taker) 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 are no taxation consequences for the Buyer in respect of any premium paid for options which are held on capital account.

Where an option on capital account lapses, the Buyer will realise a capital loss at this time, 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.

**EXERCISING A CALL OPTION:** 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.

**EXERCISING A PUT OPTION:** 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.

## Franked Dividends

Where these options hedge an existing shareholding, the options may impact upon the calculation of an investor's "net position" for the purposes of the 45/90 day holding period rule set out in the income tax legislation. Investors should confirm with their own adviser that these options do not impact upon the ability of investors to claim a tax rebate for the franking credits received on any shareholdings they may have.

Investors will also need to satisfy the holding period rule in respect of any franked dividends received from underlying shares delivered as the result of the exercise of an option. The holding period rule will need to be satisfied in order for a franking credit benefit to attach to a dividend.

## Anti Avoidance

The Australian Tax Office advises that strategies that deliberately produce a tax loss in one year and an offsetting profit in the next year are not acceptable. Structured products that are designed to make a loss (i.e. no matter which way the market moves) are not acceptable.

## Taxation of Financial Arrangements

Tax rules for the taxation of financial arrangement (TOFA) may apply to certain taxpayers, however, exclusion applies to the following taxpayers unless they irrevocably elect for TOFA to apply to all financial arrangements entered into by the taxpayer:

- *Individuals*
- *ADIs, securitisation vehicles and financial sector entities with aggregator turnover of less than \$20 million*

- *Superannuation entities and managed investment schemes with assets less than \$100 million in value*
- *Entities with aggregate turnover of less than \$100 million financial assets of less than \$100 million in value and total assets of less than \$300 million in value.*

## Part 5 Dispute Resolution

### How Does Morgan Stanley Wealth Management Deal with Complaints About ETOs?

Morgan Stanley Wealth Management is committed to a high level of client service and responding to any concerns or complaints promptly, fairly, consistently and in a professional manner.

If you have any concerns about the service provided to you, speak to your financial adviser. If you are not satisfied for any reason, you can call Morgan Stanley Wealth Management on 1-800-008-161 and provide details of your complaint to the Compliance Manager.

If you wish, you can send a written complaint to the Compliance Manager of Morgan Stanley Wealth Management at Level 26 Chifley Tower, 2 Chifley Square, Sydney and provide all relevant details of your complaint.

We will confirm in writing that your complaint has been received. The complaint will be investigated and a response provided within 45 days. If further investigation is required, it will be carried out and then you will be notified of a proposed remedy. This will be confirmed to you in writing.

### External Complaint Services and Regulatory Bodies

Morgan Stanley Wealth Management is a member of the Financial Ombudsman Service ("FOS").

If you have made a complaint and have not received a response within 45 days; or if you are unhappy with the proposed resolution; you have the right to take your complaint to FOS.

Complaints made to FOS are subject to monetary limits. For more information relating to FOS, please contact:

#### Financial Ombudsman Service

GPO Box 3  
Melbourne Vic 3001  
Tel: 1300 78 08 08  
Fax: 03 9613 6399  
**Website:** [www.fos.org.au](http://www.fos.org.au)  
**Email:** [info@fos.org.au](mailto:info@fos.org.au)

If your concerns involve Financial Planning and the ethical conduct of services provided under Financial Planning, you may also wish to consider raising your concerns in writing with the FPA. They can be contacted at:

The Investigations Manager  
**Financial Planning Association of Australia**  
PO Box 4285  
Sydney NSW 2001

The Australian Securities and Investments Commission ("ASIC") also provides a freecall information line that you may use to make a complaint and obtain information about your rights. This number is 1300 300 630.

## PDS

Morgan Stanley Wealth Management may update information in this PDS. You may access this updated information via the internet at [www.morganstanley.com.au](http://www.morganstanley.com.au) or you may request a paper copy of this information free of charge from your financial adviser. The information which Morgan Stanley Wealth Management will make available by way of these updates is subject to change from time to time and will not be information which is materially adverse to investors.

## Environmental, Social or Ethical Considerations

ETOs are generally an income generation, capital protection or speculative financial product.

Labour standards, environmental, social or ethical considerations have not been taken into account in relation to these financial products.

## Part 6 Summary of Terms of Use and Information Collection Statement

The ETOs are governed by the Agreement. You should read the entire Agreement before making a decision to use OptionWriter. In particular, you should note that the terms in Part C: ASX Derivatives Products, contains terms which are specific to OptionWriter. This section sets out matters such as exercise and expiry of ETOs, the costs involved and when an adjustment may occur.

Part C of the Agreement sets out matters such as what happens on default, our rights and ASIC, ASX and ASX Clear prescribed minimum terms for ASX derivative products, which includes ETOs.

You may only use OptionWriter once you have established a Margin Lending facility. If you take a margin loan, the terms in Part A of the Agreement will apply to you. We may also specify additional terms in any confirmation that we provide to you.

## Morgan Stanley Information Collection Statement

Morgan Stanley Wealth Management collects, holds, uses and discloses your information (including your personal information) for various purposes including providing you with financial products and services that help meet your financial needs and objectives, administering and operating those services, carrying out credit and other background checks, marketing products and services to you, exercising and defending its legal rights, complying with its legal and regulatory obligations anywhere in the world, improving, supporting and enhancing its products and services, internal training, monitoring and other legitimate business purposes.

Morgan Stanley Wealth Management may disclose your information (including your personal information) to its associated firms, vendors or other persons processing your information on its behalf (e.g. credit reporting agencies). Disclosure to these entities may involve the disclosure of your information outside Australia to countries which do not offer the same level of protection as may be enjoyed in Australia.

Morgan Stanley Wealth Management's privacy policy ('Privacy Policy') contains further details on its information handling practices and explains in more detail what personal information it collects, methods of collection, purposes of collection, retention, use and disclosure, when it may disclose your personal information, who it discloses your personal information to, the countries it may disclose your personal information to and how you may opt out from receiving marketing information. The Privacy Policy also explains your rights including how you may access and request correction of your personal information or complain about a breach of the Australian Privacy Principles by Morgan Stanley Wealth Management. The Privacy Policy is available at [www.morganstanley.com.au/privacypolicy](http://www.morganstanley.com.au/privacypolicy).

Before providing us with any information regarding an individual other than yourself in connection with this document, you should ensure that he or she knows that you will be providing his or her information to us and is aware of and has access to the information contained in this Information Collection Statement regarding our collection, use, processing, disclosure and overseas disclosure of his or her information, his or her data protection rights and the possibility of monitoring or recording of his or her communications.

## Checklist for Using OptionWriter

Before you use OptionWriter to buy and sell ETOs, you must do the following:

- Read the ASX booklet, "**Understanding Options Trading**", available at [www.asx.com.au](http://www.asx.com.au) if you are trading ETOs from time to time.
- Read this Product Disclosure Statement, particularly the summary of the Terms in Part 6 and Risks in Part 3.
- Read the Margin Lending Product Disclosure Statement.
- Read the Agreement.
- Sign and return the Margin Lending facility Application Form.

ASX rules prohibit Morgan Stanley Wealth Management from accepting ETO orders until the Morgan Stanley Wealth Management Options Account has been established. By signing the Application Form, you are warranting that you have read the ASX booklets and the Risk Disclosure Statement contained in Part 3 of this PDS.

Once we have approved your application, we will notify you. You may then borrow money under the Margin Lending facility and place orders to buy and sell ETOs with your financial adviser. Orders may be placed by telephone.



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## **Morgan Stanley Wealth Management**

Morgan Stanley Wealth Management Australia Pty Ltd  
ABN 19 009 145 555

### **Margin Lending**

PO Box 360 Collins Street West Vic 8007  
Tel 03 9188 2343  
Fax 02 9775 2714  
Toll Free 1800 062 794  
Email [marginadmin@morganstanley.com](mailto:marginadmin@morganstanley.com)

### **Sydney**

Level 26 Chifley Tower  
2 Chifley Square Sydney NSW 2000  
GPO Box 5345 Sydney NSW 2001  
Tel 02 9775 2600  
Fax 02 9775 2800  
Toll Free 1800 808 576  
Email [sydneywealth@morganstanley.com](mailto:sydneywealth@morganstanley.com)

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Fax 03 9188 2344  
Toll Free 1800 804 697  
Email [melbournewealth@morganstanley.com](mailto:melbournewealth@morganstanley.com)

### **Connect To Our Internet Site At**

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2 The Esplanade Perth WA 6000  
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