

Exchange Traded Options

TARGET MARKET DETERMINATION

5 October 2021

Issuer	Morgan Stanley Wealth Management Australia Pty Ltd ABN: 19 009 145 555 AFSL: 240813
Product	Exchange traded options (ETOs) traded on the ASX market.
Date of TMD	5 October 2021
Overview of this document	<p>This document is a target market determination for the purposes of section 994B of the <i>Corporations Act 2001</i> (Cth) (Corporations Act) in respect of ETOs issued by us.</p> <p>This document is not a product disclosure statement (PDS) and does not take into account any particular investor's objective, financial situation or needs. You should refer to our PDS at https://www.morganstanley.com.au/resources and consider obtaining independent financial product advice before deciding to invest in ETOs.</p>
Overview of ETOs	<p>ETOs are options quoted on the ASX. The underlying product can be an individual financial product, such as a quoted share or other financial product, or an index.</p> <p>The main reasons why retail clients may trade via ETOs:</p> <ul style="list-style-type: none"> • To reduce risk by hedging against other exposures (e.g. acquiring an ETO over shares the retail client already holds), or to lock in a price to purchase or sell underlying investments; • To earn increased income by obtaining premium from selling options; or • Increase returns from leverage • Diversify their portfolio, and • Profit from market movements <p>ETOs are subject to significant risks, including but not limited to:</p> <ul style="list-style-type: none"> • ETOs are typically only suitable for investors who have sufficient experience and understanding of the product; • • 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. Depending on the strategy used, losses can be substantial;

	<ul style="list-style-type: none"> • Generally speaking, ETOs are not suitable for retail investors who are unable to withstand losses without material personal hardship. • ETOs are a leveraged instrument. Leverage can magnify losses as well as gains. In other words, a high degree of leverage involved in many ETOs can work against a buyer, multiplying their losses if the market moves against the buyer; • 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 unexercised). Accordingly, buyers of ETOs should actively manage their open positions, particularly as expiry dates approach; • Sellers of options are exposed to potential margin calls, which may require cash or other assets to be lodged at short notice; and <p>It should also be noted that under the ASX Clear Operating Rules (Rules) (paragraph 5.3 of Schedule 5), a client wishing to trade in ETOs is required to acknowledge that:</p> <ul style="list-style-type: none"> • They have read and understood the documents (if any) given to them under Rule 7.1.1(b) of the Rules; • Dealing in derivatives incurs a risk of loss as well as a potential for profit; and • They have given consideration to their objectives, financial situation and needs and formed the opinion that dealing in derivatives is suitable for their purposes. • 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 • 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.
<p>Retail clients for whom ETOs are unsuitable</p>	<p>ETOs will generally not be suitable for retail clients outside the target market. Potential categories would include:</p> <ul style="list-style-type: none"> • Retail clients who do not understand the risks of ETOs as applicable to their proposed trading; and

	<ul style="list-style-type: none"> • Retail clients who cannot bear the consequences of potential losses without material impact on their standard of living.
<p>Target Market for ETOs (s994B(5)(b))</p>	<p>Given the diverse nature of different ETO strategies, we consider that the target market for ETOs is a retail client that falls within one (or more) of the below categories, noting there may also be some overlap between categories:</p> <ul style="list-style-type: none"> • High Risk Tolerance Investors – retail clients seeking to make profit via trading in ETOs; • Risk Mitigation Investors – retail clients seeking to hedge potential risk from other investments or exposures, or lock in a price to purchase or sell underlying investments; and • Premium Generation Investors – retail clients seeking to earn income by selling options covered by holdings of underlying assets. <p>Note it is not necessary for a client to fall within all three categories; it is sufficient for a retail client to fall within one of the above categories to be within the target market for ETOs.</p>
<p>Likely objectives, financial situation and needs of retail clients in the target market</p>	<p>High Risk Tolerance Investors are retail clients likely to have a higher risk appetite and who are seeking higher returns through riskier strategies and are prepared to suffer material losses (and able to withstand such losses).</p> <ul style="list-style-type: none"> • <u>Likely objectives</u>: Use existing assets to support leverage in order to seek higher returns with corresponding higher risk. • <u>Likely financial situation</u>: Have a relatively high and regular income and/or substantial holdings of capital available for investment. Are able to 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. • <u>Likely needs</u>: Wish to use spare capital to make enhanced returns <p>Risk Mitigation Investors are retail clients who are likely to be moderate to relatively risk averse and are looking to protect previous gains, lock in purchase or sale prices, or mitigate against potential future losses.</p> <ul style="list-style-type: none"> • <u>Likely objectives</u>: Protect previous gains or mitigate against potential future losses and/or lower the cost of acquiring underlying assets. • <u>Likely financial situation</u>: Have existing investments or exposures which the retail client wishes to hedge.

	<ul style="list-style-type: none"> • <u>Likely needs:</u> Loss or profit protection. <p>Premium Generation Investors are likely to be retail clients with a moderate risk appetite who are looking to increase their yield but prepared to have the options exercised against them.</p> <ul style="list-style-type: none"> • <u>Likely objectives:</u> Increase their income return. • <u>Likely financial situation:</u> Hold existing positions in underlying stocks. Require a regular income. Are able to address capital gains tax position if ETOs sold by the retail client are exercised against. • <u>Likely needs:</u> Increase income return.
<p>Different ETO strategies</p>	<p>High Risk Tolerance Investors, Risk Mitigation Investors and Premium Generation Investors may likely engage in the following strategies:</p> <ul style="list-style-type: none"> • Buying call options and put options (noting that these financial products, of themselves, may not be particularly high risk depending upon the circumstances) (Level 1 ETOs); • Selling covered call options (Level 1 ETOs); <p>Finally, we consider that the target market for ETOs includes any retail client whose open ETO position are being closed out at any time (whether on the instruction of the retail client, due to the exercise of rights by the us, by action of ASX group, or otherwise), even if that retail client would not otherwise fall within a category within the target market.</p>
<p>Explanation of why ETOs are likely to be consistent with the likely objectives, financial situation and needs of the target market (s994B(8))</p>	<p>We expect that Level 1 will likely be consistent with the likely objectives, financial situation and needs of High Risk Tolerance Investors because these products offer the potential for enhanced returns, and this class of retail client should be able to bear any potential losses without material hardship.</p> <p>We expect that Level 1 ETOs will likely be consistent with the likely objectives, financial situation and needs of Risk Mitigation Investors because these products offer the ability to protect or lock-in any previous profits from an underlying investment and/or protect against future losses.</p> <p>We expect that Level 1 ETOs will likely be consistent with the likely objectives, financial situation and needs of Premium Investors because these products offer the potential for increased income, and this class of retail client should be able to bear any consequences of their ETOs being exercised against without material hardship.</p>
<p>Distribution Conditions (s994B(5)(c))</p>	<p>Any distribution of ETOs by us directly to retail clients will be in accordance with procedures we determine are reasonably likely to ensure that ETOs are only issued to retail clients who are reasonably likely to be within the target market.</p>

<p>Review Triggers (s994B(5)(d))</p>	<p>The review triggers that may suggest that the TMD is no longer appropriate, such that a review of the TMD should be undertaken, include:</p> <ul style="list-style-type: none"> • We become aware of a significant issuance of the product to retail clients outside the target market; • Material changes to the ETO product construct by ASX group; • Material changes to law affecting ETOs; • We become aware of a significant volume of complaints from retail clients • 								
<p>Review Periods (s994B(5)(e), (f))</p>	<p>This TMD must be reviewed at least annually, and more frequently if a review trigger occurs.</p> <ul style="list-style-type: none"> • If a review trigger occurs, the review will be carried out within 3 months from the date of occurrence. Should the detriment to clients be material the review will be completed within 1 month, or where this timeframe not met, reasonable steps to resolve the issue identified should be taken. 								
<p>Distributor Reporting Requirements (s994B(5)(g), (h))</p>	<p>The following information must be provided to us by distributors who engage in retail product distribution conduct in relation to this product:</p> <table border="1" data-bbox="376 1317 1388 1930"> <thead> <tr> <th data-bbox="376 1317 590 1415">Type of information</th> <th data-bbox="596 1317 951 1415">Description</th> <th data-bbox="954 1317 1382 1415">Reporting period</th> </tr> </thead> <tbody> <tr> <td data-bbox="376 1424 590 1930">Complaints</td> <td data-bbox="596 1424 951 1930">Number and nature of complaints</td> <td data-bbox="954 1424 1382 1930"> <p>Daily</p> <p>Internally – within one (1) business day of receipt.</p> <p>Complaints reporting should be consistent with the requirements under Morgan Stanley’s complaint handling process. Complaint information should be provided in email directly to confidential_feedback@morganstanley.com.</p> </td> </tr> </tbody> </table>			Type of information	Description	Reporting period	Complaints	Number and nature of complaints	<p>Daily</p> <p>Internally – within one (1) business day of receipt.</p> <p>Complaints reporting should be consistent with the requirements under Morgan Stanley’s complaint handling process. Complaint information should be provided in email directly to confidential_feedback@morganstanley.com.</p>
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	<p>Significant dealing(s) outside the target market</p>	<p>Morgan Stanley is the Issuer and Distributor of the product. If it is identified that a dealing outside of the conditions of the TMD, the details of this dealing are to be escalated to the Morgan Stanley Compliance. Compliance will assess the dealing against the guidance provided in ASIC Regulatory Guide 274 (274.159) to determine if the dealing is a significant dealing and reportable to ASIC.</p>	<p>Internally – within (1) business day of identification.</p> <p>Information regarding any dealing outside of the terms of the TMD should be provided on email to auiw-compliance@morganstanley.com.</p>	
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