

# Target Market Determination – Exchange Traded Options

## Legal Disclaimer

This document is a target market determination for the purposes of section 994B of the *Corporations Act 2001* (Cth) (**Corporations Act**) in respect of exchange traded options (**ETOs**) issued by Wilsons Advisory and Stockbroking Limited (**Wilsons**). It forms part of Wilsons' design and distribution arrangements for ETOs.

This document applies to retail clients only. It is not a product disclosure statement (**PDS**) and does not take into account any particular client's objective, financial situation or needs. You should refer to our PDS at [www.wilsonsadvisory.com.au/disclosures](http://www.wilsonsadvisory.com.au/disclosures) to ensure you fully understand the risks involved, and consider seeking independent advice before deciding to trade ETOs.

## Target Market Summary

### Target market for ETOs

Given the diverse nature of ETOs and different strategies that may be associated with trading ETOs, Wilsons 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:

- **High Risk Tolerance Investors;**
- **Risk Mitigation Investors;** and
- **Premium Generation Investors.**

Note it is not necessary for a retail 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.

### Retail clients for whom ETOs are unsuitable

ETOs will generally not be suitable for retail clients outside the target market. Potential categories would include:

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

## ETOs and Issuer Details

<b>Issuer</b>	<b>Wilsons Advisory and Stockbroking Limited (Wilsons)</b>
<b>Issuer ABN</b>	68 010 529 665
<b>Issuer AFSL</b>	238375

<b>Financial Product</b>	<b>Exchange Traded Options</b> traded on the ASX market
<b>Date TMD approved</b>	5 October 2021
<b>TMD Version</b>	1.0
<b><i>TMD Status</i></b>	Current

## Overview of ETOs

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.

There are three main reasons why retail clients may trade ETOs:

- 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
- to seek to make profits from speculation.

ETOs are subject to significant risks, including but not limited to:

- Buyers of ETOs may lose their premium (i.e. the entire up-front amount invested) if the ETO is out-the-money at the time of expiry. Depending on the strategy used, losses can be substantial;
- Generally speaking, ETOs are not suitable for retail clients who are unable to withstand losses without material personal hardship;
- ETOs are typically only suitable for retail clients who have sufficient experience and understanding of the product;
- ETOs can be 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 retail client, multiplying their losses if the market moves against them;
- ETOs have a defined life span and expire on a specified date. The time value falls as they approach their expiry date and they are worth nothing after they expire (if unexercised). Accordingly, retail clients trading ETOs should actively manage their open positions, particularly as expiry dates approach;
- Sellers of ETOs and buyers of low exercise price options (**LEPOs**) 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.

It should be noted that under the ASX Clear Operating Rules (**Rules**) (paragraph S5.3 of Schedule 5), a client wishing to trade in ETOs is required to acknowledge that:

- 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 its objectives, financial situation and needs and formed the opinion that dealing in derivatives is suitable for their purposes.

For further details in relation to risks associated with ETOs, refer to our PDS.

## Description of Target Market

### Target Market for ETOs (s994B(5)(b))

Given the diverse nature of ETOs and different strategies that may be associated with trading ETOs, Wilsons 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:

- **High Risk Tolerance Investors** – retail clients seeking to profit via speculation in ETOs;
- **Risk Mitigation Investors** – retail clients seeking to hedge potential risks from other investments or exposures to, or to lock in a price to purchase or sell underlying investments; and
- **Premium Generation Investors** – retail clients seeking to generate income by selling ETOs fully covered by holdings of underlying assets.

Note it is not necessary for a retail 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.

### Likely objectives, financial situation and needs of retail clients in the target market

**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).

- Likely objectives: Use existing assets to support leverage in order to seek higher returns with corresponding higher risk.
- Likely financial situation: 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. Note: Margin calls would not occur as Wilsons do not allow new retail clients to take positions which generate margins.
- Likely needs: Wish to use spare capital to make enhanced returns.

**Risk Mitigation Investors** are retail 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 economic exposure to underlying assets.
- Likely financial situation: Have existing investments or forthcoming investments or exposures which the retail client wishes to hedge.

- Likely needs: Loss or profit protection.

**Premium Generation Investors** are likely to be retail clients with a moderate risk appetite who are looking to increase the yield but prepared to have the ETOs exercised against them.

- Likely objectives: Increase their income return.
- Likely financial situation: Hold existing positions in underlying assets. Require a regular income. Are able to address capital gains tax position if ETOs sold by the retail client are exercised against.
- Likely needs: Increase income return.

### **Different ETO strategies**

Wilsons expect **High Risk Tolerance Investors** will be likely to engage in the following strategies:

- 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**); and
- Selling covered call options (**Level 2 ETOs**).

Wilsons expect **Risk Mitigation Investors** will be likely trading in **Level 1 ETOs**.

Wilsons expect **Premium Generation Investors** will be likely trading predominantly in **Level 2 ETOs**.

Wilsons do not allow the selling of uncovered call and put options either in isolation or as part of a retail client's option strategy. Wilsons also do not allow buying/selling of LEPOs for retail clients.

Finally, Wilsons 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 Wilsons, by action of ASX group, or otherwise), even if that retail client would not otherwise fall within a category within the target market.

### **Appropriateness - Explanation of why ETOs are likely to be consistent with the likely objectives, financial situation and needs of the target market (s994B(8))**

Wilsons expect that **Level 1 ETOs**, **Level 2 ETOs** and **other ETO strategies** will likely be consistent with the likely objectives, financial situation and needs of **High Risk Tolerance Investors** because these ETOs offer the potential for enhanced returns, and this class of retail client should be able to bear any potential losses without material hardship. Note it is part of Wilsons risk management that only **Level 1 ETOs** and **Level 2 ETOs** are available to retail clients.

Wilsons 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 or forthcoming profits from exposure to an underlying asset and/or protect against future losses.

Wilson's expect that **Level 2 ETOs** will likely be consistent with the likely objectives, financial situation and needs of **Premium Generation Investors** because these products offer the potential for increased income, and this class of retail clients should be able to bear any consequences of their ETOs being exercised against without material hardship.

## Distribution Conditions (s994B(5)(c))

Distribution Conditions
Any distribution of ETOs by Wilson's or financial advisers authorised by Wilson's directly to clients will be in accordance with procedures Wilson's determine are reasonably likely to ensure that ETOs are only issued to clients who are reasonably likely to be within the target market. ETOs trading is currently limited to wholesale clients only. For existing retail clients who have access to trade ETOs, they are subject to assessments required by us from time to time to maintain their access.

Review triggers
This part is required under section 994B(5)(d) of the Act.
Wilson's become aware of a significant issuance of ETOs to retail clients outside the target market.
Material changes to the ETO product construct by ASX group whereby key attributes of ETOs are no longer consistent with the likely objectives, financial situation and needs of retail clients in the target market.
Material changes to law or regulation affecting ETOs.
Wilson's become aware of a significant volume of complaints (more than five complaints per quarter in relation to ETOs) from retail clients trading ETOs, with regards to the substance of these complaints and/or general feedback relating to ETOs.

Mandatory review periods	
This part is required under section s994B(5)(e), (f) of the Act.	
Review period	Maximum period for review
Initial review	1 year
Subsequent review	1 year

Distributor reporting requirements
This part is required under section s994B(5)(g), (h) of the Act.

Reporting requirement	Reporting period	Which distributors this requirement applies to
Complaints (as defined in section 994A(1) of the Act) relating to the product design, product availability and distribution. The distributor should provide all the content of the complaint, having regard to privacy.	Complaints related to ETOs are to be reported to Wilsons using the email address <a href="mailto:DDO@wilsonsadvisory.com.au">DDO@wilsonsadvisory.com.au</a> within 10 days of receiving the complaint. Nil complaint is not applicable.	As received.
Significant dealing outside of target market, under s994F(6) of the Act.	Description of the extent and nature of the significant dealing.	As soon as practicable, and in any case within 10 business days after becoming aware of the significant dealing.

***Disclaimer***

Issued by Wilsons Advisory and Stockbroking Limited ABN 68 010 529 665 AFSL 238375 (**Issuer**). Issuer is the provider of ETOs referred to in this material. This material provides general information only and does not take into account your individual objectives, financial situation, needs or circumstances. Before making any investment decision, you should assess whether the material is appropriate for you and obtain financial advice tailored to you having regard to your individual objectives, financial situation, needs and circumstances. This material is not a financial product recommendation or an offer or solicitation with respect to the purchase or sale of any financial product in any jurisdiction.

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