Exchange Traded Options
Product Disclosure Statement.

Issued by: ETRADE AUSTRALIA SECURITIES LIMITED
Australian Financial Services Licence No. 238277

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

We recommend that you consult your financial adviser or obtain other independent advice before trading in exchange traded options.

Purpose of a PDS

This PDS has been prepared by ETRADE Australia Securities Limited ("E*TRADE Australia" or "E*TRADE"), the issuer of the exchange traded options. This PDS is designed to assist you in deciding whether the products covered in this PDS are appropriate for your needs. This PDS has been prepared to assist you in comparing it with others you may be considering. The PDS is an important document and we recommend you contact us should you have any questions arising from the PDS prior to entering into any transactions with E*TRADE.

When we use terms 'we', 'us' or 'our' in this PDS, the reference is to E*TRADE. If you have any questions in relation to this PDS, please do not hesitate to contact us on 1300 658 355 or write to us at:

ETRADE Australia Securities Ltd. Reply Paid 1346
ROYAL EXCHANGE NSW 1225

This Product Disclosure Statement (PDS) contains all information, including the Schedule of Fees.

The information in this PDS does not take into account your personal objectives, financial situation and needs. Before trading in this product you should be satisfied that such trading is suitable for you in view of those objectives, and your financial situation and needs, and we recommend that you consult your investment advisor or obtain other external advice.

What products does this PDS cover?

This is a Product Disclosure Statement for exchange traded options traded on Australian Securities Exchange Limited (ASX) and settled and cleared by ASX Clear (the Clearing House). It deals with exchange traded equity options, index options ("exchange traded options") and Low Exercise Price Options (LEPOs).

- Exchange traded equity options are options over quoted shares (or other securities) of a range of different companies listed on ASX.
- Exchange traded index options are options over an index such as the S &P™/ASX 200™ Index or the S&P™/ASX 200™ Property Trust Index.
- LEPOs are call options with an exercise price of one cent.

A list of companies and indices over which exchange traded options are traded can be found on the ASX website www.asx.com.au/options

Introduction

Exchange traded options are a versatile financial product which can allow investors to:

- hedge against fluctuations in their underlying share portfolio
- increase the income earned from their portfolio
- to profit from speculation

Their flexibility stems from the ability to both buy and short sell an option contract and undertake multiple positions targeting specific movements in the overall market and individual equities.

The use of Exchange Traded Options within an investor's overall investment strategy can provide great flexibility to take advantage of rising, falling and sideways markets. However, both the purchase and sale of exchange traded options involves risks which are discussed at length on pages 7 and 8.

Specific concepts which should be practically understood before engaging in an options strategy are:

- The effect time has on any one position/strategy;
- How volatility changes, both up and down, may change your pay-off diagram for a position;
- 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 options position;
- Liquidity of an options series, the role of market makers, and the effect this may have on your ability to exit a position.

When buying an ETO the initial outlay of capital may be small relative to the total contract value so that transactions are "leveraged" or "geared". Transactions should only be entered into by investors who understand the nature and extent of their rights, obligations and risks associated with trading exchange traded options.

When selling an ETO the initial income may seem attractive but the downside may be unlimited. Risk minimisation strategies should be employed to mitigate losses when a position does not move in a favourable manner.

Whilst this PDS provides product information including information a bout the risks, characteristics and benefits of exchange traded options, investors should inform themselves and if necessary obtain advice about the specific risks, characteristics and benefits of the exchange traded option they intend to trade and relevant ASX rules.

Educational booklets:

Exchange traded options have been traded in Australia since 1976 on the ASX. Over this time, ASX has prepared a number of educational booklets relating to exchange traded options which are available to you via their website, http://www.asx.com.au/investor/options/booklets.htm.

In addition to reading this PDS, investors are advised that the PDS cross references certain of the ASX booklets. The ASX booklets that relate to options include "Understanding Options Trading", "Margins", and "Understanding Option Strategies" which are available free on the ASX website (http://www.asx.com.au/investor/options/booklets.htm). These booklets provide useful in formation regarding options traded on the ASX, including option features, advantages of options, risks associated with options, option adjustments, option pricing, margins, taxation and option contract specifications.

One of the ASX booklets entitled "Understanding Options Trading" is a booklet which we must give you in accordance with the ASX operating rules when you sign our client agreement to trade exchange traded options. This booklet is also available on line at www.asx.com.au/markets/pdf/UnderstandingOptions.pdf If you cannot access the ASX booklets via the ASX website, please contact us immediately and we will arrange to forward copies of the booklets to you at no charge.

If you have any questions on any aspect of the booklets you should consult E*TRA DE before making any investment decisions.

About E*TRADE

E*TRADE has been a leading financial services provider since 1998.

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Trading Exchange Traded Options through E*TRADE

Before we will accept orders to trade ETO's on your behalf, you will need to have entered into a Derivatives Client Agreement with E*TRADE.

How do your orders get executed?

Once it approves your orders, and subject to any time delay instructions given by you or your authorised agents, E*TRADE will place them directly into the ETO market. Unlike online orders it receives from clients wishing to deal in equity products, E*TRADE does not currently use Automated Order Processing to place ETO orders into the market , although it may do so in the near future. When it does begin using Automated Order Processing to place ETO orders into the mark et, E*TRADE reserves the right to reject any ETO order received, or refer any such order received to one of E*TRADE's CLICK Operators, for review and determination of which orders will be placed into the ETO market.

E*TRADE offers its clients t he ability to place orders in ETO's either by phone or via the internet. (Orders placed via phone may incur any additional charge – refer Part 2: Schedule of Fees.)

What are exchange traded option contracts?

Exchange traded options ma y be America n or European style exercise. Most ASX options are American style which means they are tradeable and can be exercised at any time prior to the expiry day. European options which includes index options and LEPO's, can only be exercised on the expiry day and not before.

An exchange traded option is a contract between two parties which gives the buyer (the taker) the right, but not the obligation, to buy or sell the shares underlying the option at a specified price (exercise price) on, or be fore a predetermined date. To ac quire this right, the taker pays a premium to the writer (seller) of the contract. When considering options over an index or LEPO, the same concepts generally apply.

The premium is not a standardised feature of the exchange traded option contract and is established between the taker and writer at the time of the trade. See the discussion on premium for more information.

Exchange traded option sellers are referred to as "writers" because they underwrite (or willingly accept) the obligation to deliver or accept the shares covered by an option. Similarly, buyers are referred to as "takers" of an exchange traded option as they take up the right to buy or sell a parcel of shares. Every exchange traded option contract has both a taker and a writer.

There are two types of exchange traded options, namely call options and put options. All option positions consist of one or more of either a bought call, a sold call, a bought put, or a sold put. A long (or bought) option position is created by the purchase of a call or put. A short (or sold) position is created by the sale of a call or put. By combining two or more of these basic positions, an investor can create a trading strategy that meets a range of investment objectives, including the protection of an existing portfolio of shares. For more information on possible trading strategies we refer you to the ASX Booklet entitled "Understanding Options Strategies" available on the ASX website at http://www.asx.com.au/investor/options/booklets.htm

Call options give the taker the right, but not the obligation, to buy a standard quantity of underlying shares at a predetermined price on or before a predetermined date. If the taker exercises their right to buy, the seller (writer) is required to sell a standard quantity of shares at the predetermined exercise price.

Put options give the taker the right, but not the obligation to sell a standard quantity of underlying shares at a predetermined price on or before a predetermined date. If the taker exercises their right to buy, the seller (writer) is required to buy a standard quantity of shares at the predetermined exercise price. The premium is the price of the option agreed to by the buyer and seller through the market.

The taker will always pay the writer a price (called the premium) to enter into the option contract. The writer receives and keeps the premium but has the obligation to buy from or deliver to the taker the underlying shares at the exercise price if the taker exercises the option.

What Are LEPOs?

LEPOs are European style option contracts with an exercise price of one cent. LEPOs can only be exercised on the last trading day before they expire. When you buy a share LEPO, you obtain the right to buy an agreed number of shares (100 per contract) at a specified future date, in return for the payment of the exercise price (1 cent) and a premium. Index LEPOs are also available.

The seller of a LEPO undertakes to sell the underlying securities at expiry in return for the exercise price and the premium amount at which the LEPO originally traded. As with other options, the seller of a call option is only required to deliver the underlying shares if the buyer exercises the option.

LEPOs allow investors to profit from movements in the underlying security on a one-for-one basis. Buying a LEPO is similar to a forward purchase of shares, while selling a LEPO is similar to a forward sale of shares. Because of their low exercise price, LEPOs trade for large premiums. The high premium exposure carries a risk similar to that of owning the securities outright or, for writers, short selling securities.

Although the exposure with LEPOs is similar to owning the shares you don't receive dividends directly. The value of the dividend is factored into the LEPO price. An important feature of LEPOs is that both the taker and the writer are margined. When you buy a LEPO, you do not pay the full amount of the premium upfront. Instead, you pay or receive margins during the life of the LEPO and pay or receive the balance of the premium if and when you exercise the LEPO.

Differences between LEPOs and standard Exchange Traded Options

LEPOs are different from standard exchange traded options because LEPOs:

- Are only available as call options.
- Are European style options, meaning they are exercisable on the last trading day before they expire, while standard exchange traded options are

American style options exercisable at any time before expiry.

- Have a very low exercise price and a much higher premium – close to the initial value of the underlying shares the subject of the LEPO.

- Have only one exercise price per expiry month, unlike other options, which offer a range of exercise prices.
- Do not require an amount equal to the full premium to be paid on purchase. Instead the buyer pays a margin, which represents a small percentage of the value of the underlying shares.
- Involve ongoing margin payments from both seller and buyer of the option.

Deliverable or cash settled

Exchange traded options are either deliverable or cash settled. Most exchange traded equity options are deliverable, that is with physical delivery of the underlying security, whilst index options are cash settled. Cash settlement occurs in accordance with the rules of the Clearing House against the Opening Index Price Calculation (OPIC) as calculated on the expiry date.

Standardised Contracts

Exchange traded options are created by the exchange on which the underlying equity or index is listed. E* TRADE trades exchange traded options in relation to companies and indices listed on the ASX. The ASX website provides a list of companies and indices over which exchange traded options are traded, these can be found at "www.asx.com.au/options".

ASX determines the key contract specifications for each series of exchange traded options listed, including:

(a) the underlying security or underlying index;

(b) the contract size where 1 option contract on ASX usually represents 100 underlying shares;

(c) the exercise price (or strike price) – The exercise price (or strike price) is the specified price at which the taker (buyer) of an equity option can buy or sell the underlying shares. The ASX sets the range of exercise prices at specific intervals according to the value of the underlying shares. LEPOs have an exercise price of one cent. It is important to note that the exercise price of an equity option may change during the life of an option if the underlying share is subject to a bonus or rights issue or other form of capita l reconstruction. The number of underlying shares may also be subject to an adjustment; and

(d) the expiry date – exchange traded options have a limited pre-determined life span and generally follow one of three cycles, namely:

 (i) January/April/July/October

 (ii) February/May/August/November

 (iii) March/June/September/December.

The ASX may in accordance with its operating rules make an adjustment to any of the above specifications if the listed entity over which the option relates makes a pro-rata change to its ordinary share capital structure (eg. Bonus issues or special dividends are declared). If ASX does make an adjustment it will endeavour to preserve the open positions of takers and writers at the time of the adjustment as best as possible. ASX has issued an Explanatory Guide for Option Adjustments which can be found at www.asx.com.au/markets/pdf/ExplanatoryNoteforOptionAdjustments.pdf which provides further information regarding ASX option adjustments.

Full details of all exchange traded options listed on ASX and expiry date information can be found on the ASX website at www.asx.com.au/options or alternatively through information vendors or newspapers. A list of current option codes and delayed price information is available on the ASX website at www.asx.com.au/options. Details of the previous day's trading are published in summary form in the Australian Financial Review and more comprehensively in The Australian. If you cannot access the above information, please contact us and we will arrange to provide you with the information.

Details of contract specifications for exchange traded options are published by the ASX on their website at http://www.asx.com.au/investor/options/trading_information/contract_specs.htm. The contract specifications detail the key standardized features of exchange traded options and index options traded on ASX.

Premium

The premium (price of the option) is not set by the ASX. It is negotiated between the buyer and seller of the exchange traded option through the market. The premium for an equity option is quoted on a cents per share basis so the dollar value payment is calculated by multiplying the premium amount by 100 (the number of underlying shares). For example, if you buy a call option with a premium quoted at 25c per share, the total premium is $25.00 (being $0. 25 x 100). The premium for an index option is calculated by multiplying 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.

Factors Affecting Option Premium

Option premium will fluctuate during the option's life depending on a range of factors including the exercise price, the price of the underlying securities or the level of the index, the volatility of the underlying securities or the underlying index, the time remaining to expiry date, interest rates, dividends and general risks applicable to markets.

For exchange traded options, market expectations and ultimately, the pressures of supply and demand determine the value of options.

Time Value

Time value represents the amount an investor is prepared to pay for the possibility that the market might move in their favour during the life of the option.

The amount of time value will depend on whether the option is in-the-money, at-the-money or out-of-the-money. At any given time, the at-the -money option will have the greatest time value. The further in- or out-of-the-money the option is, the less time value it will have.

A call option is said to be in-the-money where the exercise price is less than the share price. A call option is said to be at-the-money where the exercise price equals the share price.

A call option is said to be out-of-the-money where the exercise price is greater than the share price.

A put option is said to be in-the-money where the exercise price is greater than the share price. A put option is said to be at-the-money where the exercise price equals the share price.

A put option is said to be out-of-the-money where the exercise price is less than the share price.

An option's time value is affected by the following factors:

Time to expiry – the longer the time to expiry, the greater the time value of the option.

Time value declines as the expiry of the option draws closer. This erosion of time value is called time decay. It is not constant, but increases rapidly towards expiry.

Volatility – In general, the greater the volatility of the underlying asset, the greater the time value will be. This is due to the fact that the writer is exposed to a greater probability of incurring a loss, and will require higher premium income to compensate for the increased risk.

Interest rates – An increase in interest rates will lead to higher call option premium and lower put option premium, all else being equal.

This reflects the cost of funding the underlying shares. The taker of a call option can defer paying for the shares until the option's expiry date, and invest the funds elsewhere during this period. As interest rates rise, more interest can be earned on the funds, so the call option is worth more to the option taker.

The effect of an interest rate rise is the opposite for put options, as the taker is deferring the receipt, rather than the expenditure of funds.

Dividends – If a dividend is payable during the life of an option, the premium of a call option will be lower, and the premium of a put option higher, than if no dividend was payable.

This is because shares tend to fall in value on going ex -dividend, all else being equal. Anything that leads to lower share prices will make call options less valuable, and put options more valuable.

In practice, option pricing is complex and involves the use of mathematical formulae to calculate the intrinsic value and time value of options.

For more information on option pricing, you should refer to the section entitled "Option pricing fundamentals" in the ASX Booklet "Understanding Option Trading. ASX also provides a pricing calculator on the ASX website, http://www.asx.com.au/investor/options/booklets.htm.5

You can obtain current price information on ETO's via our normal website, or, if you are an active trader, via either E*TRADE pro or Power E*TRADE. Alternatively, you can call us on 1300 303 678.

No Dividends or Entitlements

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

Opening an option position

The establishment of an exchange traded options contract is referred to as opening a position. Once the taker of an exchange traded option has an open position they have three alternatives:

1. The taker can exercise the option.
2. The taker can hold the option to expiry and allow it to lapse.
3. The taker can close out t heir position by writing (selling) an option in the same series as originally taken and instructing their broker to 'close out' the earlier open position.

The writer of an exchange traded option has two alternatives:

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 by taking (buying) the option in the same series as originally taken (provided it has not been exercised against).

Closing out of option contracts

An exchange traded option position may be 'closed out' by placing an order equal and opposite in effect to your original order – this effectively cancels out the open position. An investor might close out an option contract:

- when there is a risk of un wanted early exercise (unless an index option or LEPO, as they can only be exercised on expiry day)
- to take a profit
- to limit a loss

It is important that you 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 because of the process of novation. The Clearing House is able to substitute a new buyer as the contract party 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".

Expiry

Exchange traded options have a limited life span and every option within the same series, which has not already been exercised, will expire on the expiry day. The expiry day is a standard day set by the ASX. For exchange traded options, other than index options, the option expires on the Thursday preceding the last Friday in the month, as long as both the Thursday and Friday are business days. Therefore if the last day of the month is a Thursday the option will expire on the Thursday prior. For index options, expiry is usually the third Friday of the contract month. Expiry day information is available on the ASX website at http://www.asx.com.au/investor/options/trading_information/expiry_calendar.htm.

Exercise

Option takers make the decision to exercise the option contract. This means that an equity option writer may be exercised against at any time prior to expiry, unless the contract is a LEPO or an Index Option), which can only be exercised at expiry. The Clearing House will "randomly" allocate a writer for every exercised taken position. This means that if the taker wants to exercise the options and either buy or sell (depending on whether it is a call or a put) at the predetermined price then ASX randomly allocates a writer of that option and allocates the exercise against them. The writer must then sell the shares at a predetermined price for a call or buy the shares at the predetermined price for a put. The taker of an option will generally only exercise for a profit and there fore the exercise may result in a loss to the writer of the option, depending on their initial costs. Once a writer has been allocated, the writer has lost the opportunity to close out their position and must effect the delivery or cash settlement obligations for the particular equity option contract.

Automatic exercise

Unless you or your authorised agent requests us to do otherwise by no later than 4.30pm on the date of expiry, E*TRADE will automatically exercise your taken exchange traded option contract if your contract is one cent in the money or one point for indexes. For call options the option will be in the money where the exercise price is below the price of the underlying shares. For put options the option will be in the money where the exercise price is higher than the price of the underlying shares. All unexercised option contracts will expire on the expiry date.

Settlement

Payment for, and the delivery of underlying securities, on exercise of an open exchange traded options contract occurs via the ASX's Clearing House Electronic Subregister System (CHESS) on T+3. E*TRADE is obligated to make payment to the ASX within this timeframe. For cash settled index options, a cash settlement amount calculated having regard to the opening price index calculation on expiry day, is paid to exercising takers on the day following the expiry date. The level used for settling index options is determined by a special formula. If you intend investing in index options you should take the time to understand these arrangements. For more information on settlement of index options see the ASX Booklet " Understanding Options Trading" section on 'Trading index options'. If you intend to trade LEPO's we recommend that you refer to the ASX Booklet "Low Exercise Price Options".

E*TRADE requires that you settle at T+1 (that is within 24 hours from the time the trade occurred) for all cash positions which arise from premiums, interest, and other cash financial transactions. This requirement is reflected in the terms of our client agreement with you. You are required to pay the margin amounts we call from you within 24 hours of being advised of the margin amount by us. Please see the discussion on margins below.

Significant benefits of exchange traded options

Exchange traded options have a number of advantages and include:

- Risk management where investors can hedge (protect) their share portfolio from a drop in value. Put options allow investors holding shares to hedge against a fall in the share price;
- Shareholders can earn income by writing call options over shares they already hold. As a writer of options, the investor will receive the premium amount up front. The risk is that the writer may be exercised against and be required to deliver their shares to the taker at the exercise price.
- By taking a call option, the purchase price for the underlying shares is locked in. This gives the call option holder time to decide whether or not to exercise the option and buy the shares. The holder has until the expiry date to make his/her decision. Likewise the taker of a put option has time to decide whether or not to sell the shares;
- Exchange traded options benefit from standardization and registration with a clearing and settlement facility which reduces counterparty default risk. This process provides the benefit that the client 's position can be closed out without reference to the original counterparty and the client's risk to that counterparty is transferred to the Clearing House;
- Speculation where the flexibility of entering and exiting the market prior to expiry permits an investor to take a view on market movements and trade accordingly. In addition the variety of option combinations allows investors to develop strategies regardless of the direction of the market;
- Options do not require a rising market to make money, rather investors can profit from both rising and falling markets depending on the strategy they have employed. Strategies may be complex and strategies will have different levels of risk associated with each strategy;
- The initial outlay for an options contract is not as much as investing directly in the underlying shares. Trading in options can al low investors to benefit from a change in the price of the share without having to pay the full price of the share. An investor can therefore purchase an option (representing a larger number of underlying shares) for less outlay and still benefit from a price move in the underlying shares. The ability to make a higher return for a smaller initial outlay is called leverage. Investors however, need to understand that leverage can also produce increased risks (see below).
- Given the lower initial outlay attaching to options, investors can diversify their portfolios and gain a broad market exposure over a range of securities or the index itself.

Example – Exchange Traded Options

Scenario 1 – Income

You are the holder of Share A and you wish to supplement your dividend income. You decide to write a call option. The current market price for Share A is $8.72. You writ e a November Share A call option with an exercise price of $9.02. The premium payable to you for the option is $0.98. The total premium is payable to you is $98.

The price of the Share A has steadily fallen and at expiry, Share A is trading at $8.47. The call option is not exercised but you have received $980 by way of premium received for writing the option.

Scenario 2 – Speculation

You believe that Share A will rise in value considerably in five months time. In June, Share A is trading at $9.58 and you believe that at the end of November, Share A will be trading at $10.42. A November Share A call option with an exercise price of $9.47 costs $0.38. You decide to purchase 1 November Share A call option. Premium payable for the November Share A call option = $0.38 * 100 = $38.00

In November, the price of Share A has risen to $10.82. You exercise the call option and receive 100 Share A shares for $9.47. You immediately sell the shares at the market price. Your profit = [$10.82 - $9.47] * 100 - $38 = $97

Scenario 3 – Hedging

You own 100 Share A shares and you think the price will fall. Writing call options will offset some of the loss, but you would like to be able to lock in a sale price for your shares if the market does fall. You could take 1 Share A June $8.98 put option for $0.67 ($67). The price of Share A does fall to $7.97 prior to the expiry date and you decide to exercise your put option. In exercising the put option, you protected yourself and have reduced the impact of the fall in the share price of Share A by: [8.98-7.97] * 100 – 67 = $34

Scenario 4 – Leverage

Buying call options allows you to profit from an increase in the price of the underlying shares. Suppose you believe Share A shares will rise in price over the next few months. You don't want to pay the full $557.00 to buy
100 shares so you decide to take a September $5.50 call for 40 cents ($40 plus fees and commissions). If you are correct and the price of AMP shares rises then the value of your option will also rise. You can then write an equivalent call option to close out at any time prior to the expiry day and take your profit. You will not have to buy the Share A shares if you don't want to. If the market doesn't move as expected, you can either close out the option and recoup some of your initial investment, or you can simply let the option expire worthless in September. When you take a call option, the most you can lose is the premium you have paid in the first place.

Significant benefits of LEPOs

- When you open a LEPO contract you gain exposure to the full value of the underlying securities but actually pay only a fraction of the full premium of the LEPO up front. This potentially provides a greater return to the investor but also means LEPOs have a higher risk profile.

- Selling a LEPO gives you exposure to a decline in the value of the underlying asset, enabling you to profit if the price of t he asset falls. The sale of a LEPO can be compared to a short stock position, but the LEPO position can in many cases be established more easily and at a lower cost. Using a LEPO can also be a cost- effective alternative to borrowing to fund a purchase of shares.
- Credit margins from existing open positions may be used to reduce the initial margin payable. This can further reduce the cash outlay when opening a contract.
- LEPOs are European style options, meaning they are only exercisable at expiry and you will not have to be concerned about the possibility of an early exercise

Example – LEPOs

Leverage

DATE	BUYING 100 SHARE A SHARES PURCHASE PRICE = $8.23	BUYING A LEPO PREMIUM = $857 PER CONTRACT OR $8.57 PER SHARE
28 Oct	Buy 100 Share A shares @ $8.23 = $823	Risk Margin (5% of 823) = $41.15
3 Nov	Share A share price @ $8.47	LEPO Price $8.88 Risk Margin (@ 5% of 847) = $42.35 - $41.15 = $1.20 (pay) Mark to market margin = $888 - 857 = $31 (return) Daily settlement = $29.80 (receive)
13 Nov	Share A share price @ $8.61	LEPO Price $9.02 Risk Margin (@ 5% of 861) = $43.05 - $42.35) = $0.70 (pay) Mark to market margin = $902 – $888 = $14 (return) Daily settlement = $13.30 (receive)
22 Nov	Sell shares at $8.82 Total Profit = $59	Sell LEPO @ $9.23 Risk margin reversed = $41.15 + $1.20 + $0.70 = $4305 (return) Mark to market reversed = $902 - $857 = $45 (pay) LEPO Profit = $923 – $857 = $66 (return) Daily settlement = $64.05 (return)
	Funding Cost = (7% / 365 * 25days) * $823 =$3.95	No Funding cost
	TOTAL Profit = $55.05	TOTAL Profit = $64.05

Significant Risks Explained

The risk of loss in trading in exchange traded options can be substantial. It is important that you carefully consider whether trading exchange traded options is appropriate for you in light of your in vestment objectives and financial circumstances.

You should only trade exchange traded options if you under stand the nature of the products and the extent of your exposure to risks. The risks attached to investing in exchange traded options will vary in degree depending on the option traded – see the risks outlined below.

This PDS does not cover every aspect of risk associated with exchange traded options. For further information concerning risks associated with exchange traded option trading you are referred tothe ASX booklet "Understanding Options Trading" and in particular the section entitled "Risks of option trading" (the booklet can be found on the ASX website at http://www.asx.com.au/investor/options/booklets.htm).

Exchange traded options are not suitable for some retail investors, for example, investors who have a low risk tolerance should not enter into exchange traded option trades which have the potential for unlimited losses. In deciding whether or not you should trade exchange traded option contracts, you should be aware of the following matters relating to risk.

(a) the high level of leverage that is obtainable in trading exchange traded options (due to the low level of initial capital outlay) can work against an investor as well as for the investor. Depending on the market movement, the use of leverage may lead to large losses as well as large gains.

(b) Exchange traded options have a limited life span as their value erodes as the option reaches it s expiry date. It is therefore important to ensure that the option selected meets the investor's investment objectives.

(c) Exchange traded options are subject to movements in the underlying market. Options may fall in price or become worthless at or before expiry.

(d) The maximum loss in taking (buying) an exchange traded option is the amount of premium paid. If the option expires worthless, the taker will lose the total value paid for the option (the premium) plus transaction costs.

(e) Whilst writers (sellers) of exchange traded options earn premium income, they may also incur unlimited losses if the market moves against the option position. The premium received by the writer is a fixed amount; however the writer may incur losses greater than that amount. For example, the writer of a call option has increased risk where the market rises and the writer does not own the underlying shares. If the option is exercised, the writer of the option is forced to buy the underlying shares at the current (higher) market price in order to deliver them to the taker at the exercise price. Similarly where the market falls, the writer of a put option that is exercised is forced to buy the underlying shares from the taker at a price well above the current market price.

(f) Writers of options could sustain a total loss of margin funds deposited with their broker where the market moves against the option position. In addition, the writer may be obligated to pay additional margin funds (which may be substantial) to maintain the option position or upon settlement of the contract. Margining is discussed below.

(g) Under certain conditions, it could be come difficult or impossible to close out a position. This can happen for example where there is a significant change in price over a short time period.

(h) The ASX and its Clearing House have discretionary powers in relation to the market. They have power to suspend the market operation, or lift market suspension in options while the underlying securities are in trading halt if the circumstances are appropriate, restrict exercise, terminate an option position or substitute another underlying security (or securities), impose position limits or exercise limits or terminate contracts - all to ensure fair and orderly markets are maintained as far as practicable. These actions can affect an investor's option positions.

(i) The placing of risk minimisation orders may not always limit an investors losses to the amounts that are expected. Market conditions may make it impossible for a broker to execute the risk minimisation orders. Strategies using combinations such as 'spreads' or 'straddles' may be as risky as taking a simple 'long' or 'short' position.

(j) Trades effected on the AS X may be subject to dispute. When a trade is subject to a dispute the ASX has powers, in accordance with its rules, to request that a broker amend or cancel a trade, which will in turn result in the contract with the client being amended or cancelled.

(k) E*TRADE has the ability to amend or cancel the trade as stated in our Terms and Conditions of Trading and any Confirmation / Contract Note issued. This could cause you to suffer loss or increase your loss. ;

(l) Trades effected on the ASX are traded on an electronic trading platform and cleared through the Clearing House. As with all such electronic platforms and systems, they are subject to failure or temporary disruption. If the system fails or is interrupted we will have difficulties in executing all or part of your order according to your instructions. An investor's ability to recover certain losses in these circumstances will be limited given the limits of liability imposed by the ASX and the Clearing House;

Significant risks of LEPOs explained

LEPOs are subject to all of the risk factors that affect exchange traded options. However, as LEPOs have a low exercise price, the full premium amount will be closer to the full value of the underlying instrument than a standard exchange traded option. Although the buyer of a LEPO may only be required to outlay a relatively small amount of money when the LEPO is entered into, at expiry, if the buyer of a LEPO does not exercise the LEPO, they will lose an amount approximately equal to the then current premium of the LEPO.

LEPOs are leveraged investments and potential profits and losses can be greater than the money initially out laid. Both buyers and sellers of LEPOs are required to pay margins to the Clearing House. For further information relating to risks associated with LEPO's trading, you are referred to the ASX Booklet "Low Exercise Price Options", which can be obtained via the ASX website at http://www.asx.com.au/investor/options/booklets.htm).

Costs and amounts payable associated with trading exchange traded options

Costs

Part 2 of this PDS contains information on the commission, brokerage and exchange fees attaching to exchange traded options.

Amounts Payable

Margins

The Clearing House calculates margin a mounts using a system known as TIMS (Theoretical Intermarket Margining System). Writers of options will be obligated to pay margin.

Margins are generally a feature of all exchange traded derivative products and are designed to protect the financial security of the market. A margin is the amount calculated by the Clearing House as necessary to cover the risk of financial loss on an options contract due to an adverse market movement. This means that if the price of your options moves against you, you will be asked to pay a margin which represents that adverse movement.

Total margin for exchange traded options is made up of two components:

- Premium margin – this is market value of the particular position at the close of business each day.
- Risk margin – this is the potential change in the price of the option contract assuming the maximum probable inter-day price move in the price of the underlying security or index. In times of extreme volatility an intraday margin call may be made by the Clearing House and as a consequence, we may request that you pay this on the same day.

We may call more margin from you, compared to the amount that it is obligated to be paid to the clearing house – we do this as a risk management tool.

Clearing House margin obligations may be met by paying cash or by providing certain types of eligible collateral (eg. shares and bank guarantees). Clearing House applies a 'haircut' in relation to the value of such collateral as a risk management tool, eg. Clearing House generally values collateral held by it at 70% of its full value. This means that if the shares used by you as collateral have a market value of $10,000 only 7,000 will be counted as collateral cover for your margin calls. Collateral can be used to cover risk margins for LEPOs, but it cannot be used to cover mark to market margins, which must be paid in cash.

Margin must be paid by you within 24 hours of you being advised of the margin call by us. The margining process used by Clearing House is explained in detail in the ASX booklet "Understanding Margin Obligations" which is available on the ASX website at http://www.asx.com.au/resources/publications/booklets.htm.

Any interest levied on late settlement and margin payments is due and receivable at the time the amount is levied and certainly within 1 business day of a demand being made by E*TRADE.

Other significant characteristics of exchange traded option contracts

Trading and clearing options

Exchange traded options are traded on the ASX's trading platform and cleared through the Clearing House. Participants of ASX must comply with the operating rules of the ASX. Participants who clear option contracts must comply with the operating rules of the Clearing House.

E*TRADE is licensed to execute exchange traded option contracts on the ASX's trading platform for such products, and to clear them through the Clearing House.

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

Client Trust Accounts and collateral

In order for us to trade an exchange traded option contract for you, we require you to provide us with money or property to enable us to manage the risks associated with our dealings for you in exchange traded options. Client money and property paid or given by you in connection with our advising or dealing in exchange traded options must be held by us in trust in accordance with the Corporations Act and the ASX rules. Funds required for settlement with the market will be withdrawn from the E*TRADE Cash Account established on your behalf, which includes your name as part of the account title.

Money will be held on trust for you in a trust account, however, this does not apply to money paid to reimburse us for payments we have had to make to the Clearing House (generally margin calls) in respect of dealings for you. The Corporations Act provides that money held in the trust account can be used for specific purposes such as meeting margin obligations, guaranteeing, securing, transferring, adjusting or settling dealings in derivatives.

CHESS securities (held by you) may be lodged in your name with the Clearing House as collateral for margin obligations relating to option trades. When CHESS securities are lodged with the Clearing House, the securities are held by the Clearing House as a 'third party security'. The lodged securities cannot be used by us in relation to our dealings or for our other clients in relation to their dealings unless authorised by you as third party collateral. Shares in a client's superannuation fund cannot be used as third party collateral for any other account.

National Guarantee Fund

The National Guarantee Fund (NGF) provides investors with protection in the following circumstances:

1. If a stock option is exercised, the NGF guarantees completion of the resulting trades in certain circumstances; and
2. if you have entrusted property to E*TRA DE in the course of dealing in options, and E *TRADE later becomes insolvent, you may claim on the NGF, in accordance with the rules governing the operation of the NGF, for any property which has not been returned to you or has not otherwise been dealt with in accordance with [# 1]'s obligations to you. There are limits on claims to the NGF for property entrusted.

For more information on the possible protections offered by the NGF see www.segc.com.au.

Dispute Resolution System

You may advise of any complaint or dissatisfaction with the service or advice provided to you by E*TRADE. The following dispute resolution procedure is in place to ensure that your enquiries and complaints are handled efficiently.

1. Contact E*TR ADE or E*TRADE's Trading Manager – Derivatives, and advise us of your complaint. A representative of E*TRA DE will attempt to resolve your complaint and will notify you of any proposed resolution.
2. If your complaint is not resolved to your satisfaction, please send your complaint in writing to:
   Compliance Manager
   ETRADE Australia Securities Ltd
   347 Kent Street
   Sydney NSW 2000
3. If you have not received a satisfactory response or 45 days have elapsed, you may refer the matter to the Financial Ombudsman Service (FOS) of which E*TRADE is a member (membership number 10400). FOS can be contacted as below:
   Financial Ombudsman Service.
   GPO Box 3
   Melbourne Vic 3001
   Telephone: 1300 780 808
   Facsimile: (03) 9613 6399
   Email: info@fos.org.au
   Internet: www.fos.org.au

If you require further information on how complaints are handled by E*T RADE, please visit our website on www.etrade.com.au or refer to our Financial Services Guide.

Significant taxation implications

The in formation below is based on existing tax law and established interpretations as at the date of this Product Disclosure Statement.

The taxation information provided be low is intended as a brief guide only and does not cover every aspect of taxation related with the use of exchange traded options and low exercise price options ("LEPOs"). The information applies to Australian resident investors only. It is important to note that your tax position when trading exchange traded options and LEPOs will depend on your individual circumstances, in particular whether you are trading on revenue or capital account (refer below for further discussion).

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

Implications for Australian Resident Investors

Revenue Account

Writer of the Option

Where a writer of an option writes an option in the ordinary course of business or the option has been written over an underlying revenue asset, the option will be treated as being on revenue account.

The premium received by the writer of the option will be assessable on a due and receivable basis. Where any premium is credited to the writer's Clearing House account the amount will still be assessable on this basis.

Any subsequent margin calls are not be deductible when they are deposited by the writer into their Clearing House account. These margins will merely reduce any net position of the writer upon the close-out, settlement or exercise of the option by the taker.

Where interest is received by the writer on the margins held in their Clearing House account, this is required to be included in the writer's assessable income.

Taker of the Option

A 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 taker 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 it s expiration, any gain or loss on the option position will be treated as assessable or deductible as the case may be.

Capital Account

Writer of the Option

Where a writer 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 writer 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 writer's Clearing House account the amount will still be assessable on this basis.

Any subsequent margin calls will merely reduce any net position of the writer upon the close -out, settlement or exercise of the option by the taker.

Where interest is received by the writer on the margins held in their Clearing House account, this is required to be included in the writer'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 writer's capital proceeds for CGT purposes.

This may have practical implications for writers' 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 writers cost base of the underlying asset for CGT purposes.

This may have practical implications for writers' 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.

Taker of the Option

A 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 taker in respect of any premium paid for options which are held on capital account.

Where an option on capital account lapses, the taker 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 taker 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 taker.

Exercising a Put Option - Where a put option is exercised, the taker will generally deduct the option price from the proceeds received on the disposal of the underlying asset.

Low Exercise Price Options - From an income tax perspective there are no specific legislative rules dealing with LEPOs. Consequently, the taxation consequences of investing in LEPOs will be determined having regard to the respective circumstances of the investor according to general tax principles.

Generally, the taxation consequences of investing in LEPOs will be the same as those outlined above.

However, an alternate view exists which is again essentially the same as that outlined above, except that the relevant point for determining any taxation consequences does not occur until the LEPOs are closed out, exercised or expire.

Goods and Services Tax

The purchase and disposal of exchange traded options and LEPOs over shares and the share price index by investors is not subject to GST.

Costs associated with trading exchange traded options

All fees and charges quoted include GST, unless otherwise specified.

E*TRADE provides the facility to trade Exchange Traded Options ("ETO's") to both its online retail clients and to clients of other Australian Financial Services Licensees ("Intermediaries") that utilise the execution, clearing and settlement services of E*TRADE.

Online Retail Clients

(a) Fees and Charges

(i) Brokerage

Opening or closing an ETO contract

E*TRADE charges retail clients, using E*TRADE's online ETO trading facility to open or close a Single-Leg ETO contract, a standard brokerage rate of the greater of $44.95 per trade or 0.55% of the traded value of the contract.

Executed Single-Leg Option orders placed by phone will be charged at the standard brokerage rates set out above brokerage rates, plus $38.50. Multi-Leg Option orders can only be placed by phone, and, when executed, will be charged per leg at the standard brokerage rates set out above (executed Multi-leg orders will not incur any additional phone charges).

Buy Write Trading

Buy Write trading is available by phone only and is charged using a combination of the cost of both the Option and Equity trade components.

Standard Brokerage for the Options component is the greater of $44.95 or 0.55% of trade value.

Standard Brokerage for the Equity component is $32.95 on trade value up to $30,000, or 0.11% of trade value for trades above $30,000.

Exercising Options

Options exercised will be incur brokerage at the maximum of $44.95 or 0.22% of trade value.

(ii) Other Charges

ASX Clear Charges

ASX Clear charges a transaction fee of $0.143 per ETO contract. If you exercise a share option, ASX Clear charges an exercise fee of $0.05 per contract. The ASX Clearfees and GST applicable thereto are shown separately on your Confirmation/Contract Note.

Government Taxes

GST is charged on all brokerage and ASX Clear fees at the rate of 10%, and is disclosed separately on your Confirmation/Contract Note.

Interest

If your E*TRADE Bank Account becomes overdrawn, due to that account being debited for settlements required with ASX Clear in relation to Derivatives Contracts or with ASX in relation to exercise or assignment of Derivatives Contracts, interest is charged at the rate determined by the financial institution with which the E*TRADE Bank Account has been established.

(b) Rebates to Online Retail Clients

E*TRADE provides rebates to online retail clients who trade ETO's more than 10 times per calendar month on the one account, on the following basis:

For the 11th to 20th ETO trade per calendar month on the one account, a $5 rebate for each of those trades; for the 21st and subsequent ETO trades per calendar month on the one account, a $10 rebate for each of those trades. Equities trades do not count towards ETO trade rebates.

Intermediaries' Clients

(a) Fees and Charges

(i) Brokerage

The rates of brokerage for ETO's are set by the Intermediary – not E*TRADE - and may differ between Intermediaries. If you are a client of an Intermediary, you should refer any questions regarding brokerage charges to that Intermediary.

(ii) Other Charges

ASX Clear Fees

ASX Clear charges a transaction fee of $0.143 per ETO contract. If you exercise a share option, ASX Clear charges an exercise fee of $0.05 per contract. The ASX Clear fees and GST applicable thereto are shown separately on your Confirmation/Contract Note.

Government Taxes

GST is charged on all brokerage and ASX Clear fees at the rate of 10%, and is disclosed separately on your Confirmation/Contract Note.

(b) Rebates to Intermediaries' Clients

No rebates of brokerage are paid to Intermediaries' clients.

(c) Remuneration of Intermediaries

E*TRADE pays Intermediaries the brokerage charged on your contract note, after deducting a charge of up to $35.00 or 0.11% of trade value per ETO trade.

General Information (all clients)

Charges

All brokerage, ASX Clear fees and GST charges are shown separately on your Confirmation / Contract Note.

Brokerage and fees that are charged on your Confirmation/ Contract Note may be tax deductible. You must confirm this with your own Tax Adviser or Accountant, in relation to your specific situation.

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