



Canaccord Genuity

Exchange Traded Options Target Market Determination (TMD)

Issuer

Canaccord Financial Australia Limited, ABN 69 008 846 311 (CG) is the holder of AFS Licence No 239052.

Product

Exchange traded options (ETO's) traded on the ASX market.

Document Overview

This document is a target market determination for the purposes of section 994B of the Corporations Act 2001 (Cth) (Corporations Act) in respect of ETOs issued by CGs. This document is not a product disclosure statement (PDS) and does not consider any investor's objective, financial situation or needs. You should refer to the CG ETO PDS and consider obtaining independent financial product advice before deciding to invest in ETOs.

Overview of ETO's

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 via 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
- diversifying their portfolio.

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

- ETO's are generally 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;



Canaccord Genuity

- 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;
- CG considers that trading in LEPOs is not suitable for retail clients and, as such, we do not allow retail clients to trade LEPOs.
- Sellers of options 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. Because of the high risks of selling uncovered call and put options this strategy is not permitted.

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:

- 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;
- they have considered 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.



Canaccord Genuity

Retail Clients for who, ETO's 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.

Target Market for ETO's (s994B(5)(b))

Given the diverse nature of different ETO strategies, CG considers 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 make profit via speculation 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.

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.

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

High Risk Tolerance Investors are retail clients who are likely to have a higher risk appetite, and who are seeking higher returns through riskier strategies. These clients are prepared to suffer material losses (and able to withstand such losses).

- *Likely objectives:* to use existing assets to support leverage 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. Can withstand losses from trading without causing distress or material impact on living standards. Have available liquid assets to fund potential margin calls. Have a good understanding of ETOs and trading strategies.
- *Likely needs:* Wish to use spare capital to make enhanced returns.



Canaccord Genuity

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 cost of acquiring underlying assets.
- *Likely financial situation:* Have existing 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 their yield but prepared to have the options exercised against them.

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

Different ETO strategies

High Risk Tolerance Investors, Risk Mitigation Investors and Premium Generation Investors may 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 1 ETOs).

Finally, CG considers that the target market for ETOs includes any retail client whose open ETO position is 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.

Explanation of why ETO's are likely to be consistent with the likely objectives, financial situation and needs of the target market

CG expects that Level 1 ETOs will likely be consistent with the likely objectives, financial situation and needs of **High Risk Tolerance Investors**. This is 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.



Canaccord Genuity

CG expects 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.

CG expects 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.

Distribution Conditions (s994B (5) (c))

No third party distributor is permitted to distribute ETOs issued by CG to retail clients unless the distributor considers on reasonable grounds that each relevant retail client is likely to be within the target market.

Any distribution of ETOs by CG 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.

Review Triggers (s994B(5)(d))

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

- CG becoming 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; or
- CG becomes aware of a significant volume of complaints from retail clients.

Review Periods (s994B (5) (e), (f))

This TMD will be reviewed annually or more frequently if a review trigger occurs.

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.



Canaccord Genuity

Distributor Reporting Requirements (s994B(5)(g), (h))

The following information must be provided to CG by distributors who engage in retail product distribution conduct in relation to this product:

Type of information	Description	Reporting period
Complaints	Number and nature of complaints	Daily Internally – within one (1) business day of receipt. Complaint's reporting should be consistent with the requirements under CG's complaint handling process. Complaint information should be provided in email directly to CGAU.Compliance@cgf.com
Significant dealing(s) outside the target market	CG 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 CG Compliance. CG 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.	Internally – within (1) business day of identification. Information regarding any dealing outside of the terms of the TMD should be provided on email to CGAU.Compliance@cgf.com

Dated: 17 September 2024