

Target Market Determination

CommSec Exchange Traded Options

Start date: 10th October 2023

Next review due: 10th October 2024

Review period: At least every 12 months from the start date of this Target Market Determination

What is a Target Market Determination?

A Target Market Determination (TMD) describes the cohort of customers that the product is targeted at (the Target Market) and any conditions around how the product is distributed to customers (the Distribution Conditions).

It also describes the events or circumstances where we are required to review the Target Market Determination for a financial product (the Review Triggers).

Why does CommSec need to have Target Market Determinations?

We're required to have Target Market Determinations under law. The purpose of the law is to make sure customers are at the centre of our approach when designing and distributing our financial products. This document is not a substitute for the product's terms and conditions or other disclosure documents.

When making a decision about this product, customers must refer to the relevant Product Disclosure Statement (PDS), Terms and Conditions or other disclosure documents.

Product Description

The table below matches the Key Product Attributes to the Objectives and Needs of the Target Market for this Product.

- CommSec Exchange Traded Options (ETO) are exchange-traded equity and index options that are traded on the ASX using a CommSec ETO account:
- Exchange-traded equity options are options on quoted shares (or other securities) of a select group of stock exchange listed companies; and
- Exchange-traded index options are options on a select group of stock exchange indices.
- Four trading levels are available with each trading level offering different types of investment or trading strategies, with varying levels of risk.

Target Market and Key Product Attributes

Objectives and Needs	Product Attributes
<ul style="list-style-type: none"> • To hedge or protect investment portfolio from falls in share values or the market; and/or • To lock in the price of a share and gain time to decide whether to purchase or sell the shares; and/or • To diversify investment portfolio using leverage. 	<p><u>Buy Calls and Puts to open</u> – available on Level 1, Level 2, Level 3 and Level 4 ETO accounts.</p> <ul style="list-style-type: none"> • Investors can use options to hedge or protect their investment portfolio from falls in share values or the market, or to lock in the price of a share and gain time to decide whether to buy or sell the shares. • A Call option gives the buyer the right, but not the obligation, to buy the underlying security (share or share market index) at the exercise price on or before the expiry date. • A Put option gives the buyer the right, but not the obligation, to sell the underlying security (share or share market index) at the exercise price on or before the expiry date. • With a smaller initial outlay than investing in shares directly, options allow investors to diversify their portfolio and achieve a broader market exposure, and benefit from price movements in the underlying shares without having to pay the full price of the shares. • The risk of financial loss is limited to the option premium and fees paid. However, depending on the strategy used, losses can still be substantial.
<ul style="list-style-type: none"> • To earn additional income (option premium) by selling Call options over shares already owned, with risk of assignment; and/or • To profit from a market view. 	<p><u>Selling Covered Calls</u> – available on Level 2, Level 3 and Level 4 ETO accounts.</p> <ul style="list-style-type: none"> • Investors can sell Call options over shares already owned. Investors receive the option premium upfront (less fees paid) for entering into the Covered Call contract, with an obligation to sell the underlying shares (already owned) at the exercise price, if assigned. • In the event the Call option is assigned, investors will not

Objectives and Needs

Product Attributes

profit from any further increases in the value of the shares.

Buy Calls and Puts to open – available on Level 1, Level 2, Level 3 and Level 4 ETO accounts.

- Investors can use options to profit from a market view – buy Call options when expecting a share price or share market index to rise, or buy Put options when expecting a share price or share market index to fall.
- The risk of financial loss is limited to the option premium and fees paid. However, depending on the strategy used, losses can still be substantial.

Selling Uncovered Calls – available on Level 3 and Level 4 ETO accounts.

- Investors can sell Call options (uncovered or on margin) to profit from a prediction that the share price will fall. The profit is limited to the option premium received (less fees paid) for entering into the Short Call contract, which investors will achieve if the share price at expiry is below the exercise price.
- When selling Uncovered Calls, investors can be exposed to material risk, including potentially unlimited leveraged losses from securities increasing in value. The liability is not limited to the amount of the margin paid. If the market moves against the position or margins are increased, investors may be called upon to pay substantial additional funds or provide additional collateral on short notice to maintain the position or upon settlement.

Selling Uncovered Puts – available on Level 4 ETO accounts.

- Investors can sell Put options (uncovered or on margin) to profit from a prediction that the share price will remain steady or rise slightly. The profit is limited to the option premium received (less fees paid) for entering into the Short Put contract, which investors will achieve if the share price at expiry is above the exercise price.
- When selling Uncovered Puts, investors can be exposed to material risk, including leveraged losses limited to the underlying securities decreasing in value to the maximum of zero. The liability is not limited to the amount of the margin paid. If the market moves against the position or margins are increased, investors may be called upon to pay substantial additional funds on short notice to maintain the position or upon settlement.

Financial Situation

The Financial Situation of the Target Market are customers that:

- Have access to existing share investments and/or cash to meet options trade settlement and/or margin requirements; and
- Are able to bear potential losses from options trading in a way that is consistent with their financial situation.

CommSec views that its processes in place, including eligibility criteria for this product, will mean that the product will likely be consistent with the Financial Situation of the Target Market.

Customers outside of the Target Market

This product is not targeted at customers who:

- Are novice or inexperienced investors; or
- Have a risk appetite inconsistent with the risks and potential financial loss set out in the Product Attributes referred to above; or
- Are not able to affirm that they meet certain financial risk, financial capacity and complete options positions monitoring activities; or
- Do not demonstrate that they understand and accept the risks associated with options trading, including but not limited to the following:
 - o Market movement and volatility;
 - o Leverage (which can multiply profits as well as losses);
 - o Expiry (limited life of options);
 - o Exercise and assignment;
 - o Margin calls;
 - o Financial loss; or
- Are unlikely to meet the financial obligations and bear potential losses from options trading.

Customers whose open option positions are being closed out (whether on the instruction of the customer, due to CommSec exercising its rights, by action of the Australian Securities Exchange (ASX) Group or otherwise) are included in the target market, even if the customer would not otherwise fall within the target market.

Eligibility Criteria

To hold a CommSec ETO account, customers will need to satisfy the following criteria, including that customers must:

- Be individuals aged 18 years or older; and
- For personal/joint accounts, have an Australian residential and postal address; or
- Be an Australian registered or incorporated company; or
- Be an Australian trust or self managed super fund (SMSF); and
- Be an experienced investor in financial markets, including cash markets (i.e. equities, warrants, or exchange traded funds etc.) and/or derivatives markets; and
- Have a risk appetite consistent with the risks and potential financial loss set out in the Product Attributes referred to above; and
- Have an existing CommSec Share Trading Account in the same name; and
- For new CommSec ETO accounts,

- Have an existing Commonwealth Direct Investment Account or CommSec Margin Loan account or Commonwealth Bank of Australia (CBA) account in the same name for trade settlement purposes; and
- Be able to affirm that they meet certain financial risk, financial capacity and complete options positions monitoring activities; and
- Be able to pass a knowledge assessment for the relevant trading level (all individuals with authority to transact on the account must pass the assessment).

A separate Target Market Determination has been made for the Commonwealth Direct Investment Account and other CBA accounts referred to above. Refer to www.commbank.com.au/tmd.

Distribution Conditions

CommSec will have oversight over how the product is promoted and issued. All customers must satisfy CommSec's eligibility criteria for the product. In addition, the below table identifies the distribution channels which the product can be sold through and sets out the conditions that apply to each channel. CommSec views that the conditions specified are appropriate and are of a nature that it will be likely that the product will be distributed to the target market.

Distribution Channels	Conditions that make product distribution through the channel appropriate	Why do we do this?
Proprietary:		
<ul style="list-style-type: none"> • Online channel – CommSec website; and 	<p>Online channel – CommSec website:</p> <p>CommSec's website provides customers with access to the following to help direct customers to products that are consistent with their objectives, needs and financial situation:</p> <ul style="list-style-type: none"> • List of available products, with a summary of how the product works, key benefits and risks, rates and fees, and eligibility criteria; and • Product Disclosure Statement, Terms and Conditions, and other disclosure documents. • Link to ASX published Understanding Options booklet. 	<p>We do this to provide customers with multiple easy ways to open and transact on an Exchange Traded Product account.</p>

<ul style="list-style-type: none"> Staff assisted channels (e.g. with a relationship manager) 	<p>CommSec staff who distribute this product:</p> <ul style="list-style-type: none"> Must take reasonable steps to ensure that the product is distributed to eligible customers within the Target Market; Must follow procedures that outline application eligibility and processes; Are provided training and resources to understand and discuss the benefits and fees of the product and the key differences between transaction accounts; Have access to product resources such as internal product information pages; and Are monitored through quality assurance or sales conduct incidents to ensure proprietary distribution adheres to procedures. 	<p>We do this so staff distributing this product are knowledgeable about the product and are taking reasonable steps to distribute ETOs to customers in the target market.</p>
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Third Party:

<ul style="list-style-type: none"> The CommSec ETO product cannot be distributed or offered through third parties. 		
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Review Triggers

The TMD may no longer be considered appropriate and a review of this TMD must be undertaken by CommSec, if any of the below review triggers occur:

Information Type	Description
Customer Outcomes	<p>Customer outcomes which are significantly inconsistent with the intended product performance, including the following:</p> <ul style="list-style-type: none"> A material number of customers who are not meeting trade settlement and/or margin requirements; and A material number of customers in financial hardship arrangements. Significant change in the number of customers that opened and closed an ETO trading account within a set period of time from origination

Complaints	<p>Unexpected trends in complaints received from customers who acquired the product, which relate to the customer's purchase or use of the product, for example:</p> <ul style="list-style-type: none"> • Distribution (e.g., incorrect product information on the website); • Product suitability (e.g., sale of the product to a customer who does not satisfy the eligibility criteria); and • Product attributes (e.g., customer's ability to execute a trading strategy).
Incidents	A material incident or significant number of incidents identifying potential breaches of CommSec's legal or regulatory obligations in relation to the product.
Changes to the Product	The material alteration of the product or product terms and conditions (e.g. adding to, removing or changing a key product attribute; significant change to distribution channel and distribution strategy).
Significant Dealings	Any significant dealing of the product to customers who are outside of the Target Market.
Notification from ASIC	The receipt of a product intervention power order from ASIC requiring CommSec to immediately cease retail product distribution conduct in respect of the product.
Other Events or Circumstances	Any other event or circumstance that CommSec views would materially change a factor taken into account in making the TMD.

Review Trigger Information Reporting Requirements

The following information must be provided to CommSec by all parties responsible for the retail product distribution conduct of this product in accordance with this TMD, within the required timeframes:

Information Type	Description	Time Frame for Reporting
Product complaints data	Information relating to complaints received including number of complaints, third party distributor identifier information, product name and complaint verbatim.	Quarterly, and in any case no later than 10 business days from the end of the quarter.

Product Issuer: Commonwealth Securities Limited (CommSec) ABN 60 067 254 399 AFSL 238814. CommSec is a wholly owned but non-guaranteed subsidiary of the Commonwealth Bank of Australia ABN

48 123 123 124 AFSL 234945 and is a market participant of ASX Limited and Cboe Australia Pty Limited, clearing participant of ASX Clear Pty Limited and settlement participant of ASX Settlement Pty Limited.