

Reduction of Equity Option Contract Size



ASX

AUSTRALIAN SECURITIES EXCHANGE

ASX is introducing a new standard contract size of 100 Shares Per Contract (SPC) for the single stock Exchange Traded Options (ETO) market. This change is scheduled to take place, in a phased fashion (alphabetically by ETO stock code) between Monday 2nd May and Friday 13th May 2011.

Why is ASX reducing ETO contract sizes?

In recent years ASX has been approached by many stakeholders who have suggested that reducing the contract size would be beneficial to the market. In late 2008 ASX released a Market Consultation Paper that proposed reducing the standard contract size to 100 shares. The proposal received broad market support. Specifically, ASX believes the contract size reduction to 100 SPC will be beneficial to the market for the following reasons:

- The global industry standard is 100 SPC (e.g. the ETO markets in Europe and North America are usually 100 SPC).
- At 1,000 SPC an ETO contract is relatively “expensive” for high dollar stocks (e.g. BHP & RIO), sometimes making it difficult for retail investors to access the market.
- By offering more granularity, retail investors will be able to access the ETO market in increments of 100 share lots as opposed to increments of 1,000 share lots.

- Likewise institutional investors can also benefit from this added granularity by being able to hedge against their equity portfolio positions in 100 share lot increments.
- Over the last 5 years, due largely to increasing algorithmic execution, the average trade size on the ASX Cash Equity Market has fallen from \$35k to \$8k. It is therefore also appropriate to reduce the ETO SPC in order to bring back into line the “at market” hedging risk between the Cash Equity Market and the ETO contract.
- ASX regards bringing the hedging risk back into line as a necessary measure to attract more electronic traders and new Market Makers into the ASX ETO market.

In summary, ASX is reducing the ETO SPC to make the contract more affordable and more accessible for all users. ASX believes this is a necessary reform for the ETO market that will deliver more liquidity and attract new market entrants.

Please note: ASX has also announced a pro-rata 10/1 reduction in the ASX ETO Registration fee from \$1.30 (pre-GST) to 13c (pre-GST) as well as a reduction in the exercise/assignment fee from 50c (pre-GST) to 5c (pre-GST).

1000 to 100 ASX ETO SPC Transition

Implementation Schedule

DATE	TRANCHE	NO OF CLASSES	CODES
2 May 2011	1	7	AGK, AMC, AMP, ANZ, ASX, AWC, AXA*
3 May 2011	2	4	BHP, BLD, BSL, BXB
4 May 2011	3	11	CBA, CCL, CFX, COH, CPU, CSL, CSR**, CWN, DJS, ELD, EQN
5 May 2011	4	12	FGL, FMG, FXJ, GNS, GPT, HVN, IAG, IFL, IPL, JHX, LEI, LLC
6 May 2011	5	8	MAP, MGR, MQG, MYR, NAB, NCM, NW1, NWS
9 May 2011	6	10	ORG, ORI, OSH, OST, OZL, PEM, PPX, QAN, QBE, QRN
10 May 2011	7	6	RIO, SGM, SGP, SHL, STO, SUN
11 May 2011	8	8	TAH, TCL, TEN, TLS, TO2, TOL, TTS, AIO***
12 May 2011	9	3	WBC, WDC, WES
13 May 2011	10	4	WOR, WOW, WPL, WRT

* AXA ETOs are subject to become AMP ETOs during March 2011

** CSR is subject to two corporate actions during February 2011

*** AIO is grouped with TOL on account of the basket option TO2

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