ASX Disclosure Document (Options): Special Characteristics and Risks of Equity and Stock Index Options

For limited distribution in the United States only to Eligible Broker-Dealers and Eligible Institutions

Updated: July 2012
Version: 7.0

For these products the market is operated by ASX Limited ABN 98 008 624 691

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Disclosure Document

Options offered at ASX Limited (**ASX**) have not been registered under the U.S. Securities Act of 1933 (the **Securities Act**) or any state securities law. Neither this document nor the options have been approved or disapproved by the U.S. Securities and Exchange Commission (**SEC**) or any state securities commission. This document is not a solicitation of orders for transactions on the ASX, nor does it constitute investment advice.

This document is intended for distribution only to '**Eligible Broker-Dealers'** and '**Eligible Institutions**' in the United States. To be Eligible, each such entity must have had prior actual experience in the U.S. domestic options markets, and, therefore, have received the options disclosure document for U.S. standardized options required by Rule 9b-1 under the Securities Exchange Act of 1934 (the **Exchange Act**). In addition, such entities must meet the same qualifications as a 'qualified institutional buyer' under Rule 144A of the Securities Act (**Rule 144A**) or as an entity excluded from the definition of 'U.S. person' by Rule 902(k)(2)(vi) of Regulation S under the Securities Act.

The definitional qualification means, in general, that an Eligible Broker-Dealer must be registered as such with the SEC and must in the aggregate own and invest on a discretionary basis at least US$10 million of securities (as defined and provided in Rule 144A). An Eligible Institution must come within the categories of non-broker-dealer entities defined as eligible institutional buyers in Rule 144A and must in the aggregate own and invest on a discretionary basis at least US$100 million in securities (as defined and provided in Rule 144A). Alternatively, an Eligible Institution must, as provided in Rule 902(k)(2)(vi) of Regulation S under the Securities Act, be a specified international organization.

Participants of ASX will be advised that they may execute options transactions with or for a person located in the United States only if that person is an Eligible Broker-Dealer or an Eligible Institution, acting for its own account or the accounts of other Eligible Broker-Dealers or Eligible Institutions or managed accounts of non-U.S. persons within the meaning of Rule 902(k)(2)(i) of Regulation S under the Securities Act. Appropriate documentation will be required for this purpose.

Contents

1. INTRODUCTION

Exchange History

ASX was formed in 1987 through the amalgamation of six independent security exchanges to a company limited by shares under Australia's Corporations Law.[1] Each of those exchanges had a history of share trading dating back to the 19th Century. ASX was originally a mutual organisation of stockbrokers. In 1996, its members decided to demutualise and become a publicly listed company which required legislation of the Australian parliament. The demutualisation took place on 13 October 1998, and the following day ASX shares were listed for trading on ASX's own market. ASX operates Australia's primary national exchange for equities, equity options, index options and equity structured products, among other products. ASX provides comprehensive market data and information to a range of users.

On 25 July 2006, ASX merged with SFE Corporation Ltd, the parent company of Sydney Futures Exchange Ltd (**SFE**) which operated the Sydney Futures Exchange. The new merged entity changed its name from Australian Stock Exchange Limited to ASX Limited on 5 December 2006. The merged group operates under the brand Australian Securities Exchange. ASX and SFE continue to operate separate markets under separate market licences and the information in this document relates only to the ASX market and the clearing and settlement arrangements for that market.

The ASX Group

ASX, ASX Clearing Corporation Limited (ASXCC), ASX Settlement Corporation Limited (ASXSC), the ASX Clear Pty Limited (**ASX Clear**) and ASX Settlement Pty Limited (**ASX Settlement**) (collectively, the **ASX Group**) facilities are primarily located in Sydney, Australia. The ASX Group is subject to Australian law and each entity is separately licensed under the Corporations Act 2001 (Cth) (the **Corporations Act**) to carry on its functions, primarily the trading, clearing and settlement of market transactions. The ASX Group is subject to regulation by the Australian Securities and Investments Commission (**ASIC**).

ASIC is a member of the International Organisation of Securities Commissions and has co-operative and information sharing arrangements in place with regulatory authorities in other countries. On 1 August 2010 ASIC took over responsibility for supervision of real-time trading on Australia's domestic licensed markets. The ASIC Market Integrity Rules supplement its existing responsibility for enforcement of the laws against misconduct on Australia's financial markets and its supervision of Australian financial services licence holders.

As discussed above ASX acts as the entity through which the trading activity takes place and is the parent entity for the other companies within the ASX Group.

Both ASX Clear and ASX Settlement are registered companies and have their own Boards of Directors that govern day-to-day activities, however, some directors and/or senior officials of ASX Clear and/or ASX Settlement also serve as directors or senior officials of ASX. Operational decisions affecting the ASX Settlement and ASX Clear, including changes to expiration adjustments, introduction of new classes of assets as collateral, proposed and finalized rule amendments, rule procedure amendments and systems upgrades are reported to ASX Clear and ASX Settlement Boards of Directors for their decision, or delegated to senior management.

ASX Clear is a wholly-owned subsidiary of ASXCC, an intermediate holding company which is a wholly owned subsidiary of ASX Limited. ASX Clear acts as the central counterparty for all transactions on ASX markets (as defined above) and undertakes the registration and clearing of all options. ASX Clear performs a similar function to that of The Options Clearing Corporation in the United States. ASX Clear is subject to the Financial Stability Standard established by the Reserve Bank of Australia (**RBA**) for Central Counterparties. For further information see http://www.rba.gov.au/payments-system/clearing-settlement/standards/index.html. In general, ASX Clear is responsible for providing the framework of rules and systems as the central counterparty. ASX Clear's primary role is counterparty risk management to ensure that financial difficulties encountered by any one ASX Clear Participant are prevented from affecting other ASX Clear Participants or the market generally (i.e. counterparty and systemic risks are minimized). ASX Clear achieves this through the use of a capital liquidity framework that

[1] As ASX is a company limited by its shares, the liability of ASX shareholders is limited to the amount, if any, of ASX shares that are subscribed/owned but not yet paid for. The Corporations Law was amended in 2001 and has been renamed as the Corporations Act 2001 (Cth).

defines minimum capital and risk measurement standards for all ASX Clear Participants and active risk management in the form of daily margin requirements for all derivative products. ASX Clear also has comprehensive risk controls in place, including daily and intraday risk monitoring, daily stress testing of its financial resources and comprehensive default management plans.

ASX Settlement is a wholly-owned subsidiary of ASXSC, an intermediate holding company which is a wholly-owned subsidiary of ASX. ASX Settlement is the licensed settlement facility for ASX markets and provides all settlement and asset registration services. ASX Settlement performs a function similar to that of the Depository Trust Company in the United States. In relation to options trading it facilitates the delivery of underlying securities. ASX Settlement is also subject to the RBA Financial Stability Standard for Securities Settlement Facilities. For further information see http://www.rba.gov.au/payments-system/clearing-settlement/standards/index.html.

ASX Clear and ASX Settlement have been granted a central counterparty licence and a settlement facility licence, respectively, by the Parliamentary Secretary to the Treasurer under the Corporations Act. ASX Clear and ASX Settlement are subject to regulation by ASIC, which administers the Corporations Act, and the RBA with respect to the RBA Financial Stability Standards. ASIC is obligated to assess ASX Clear's and ASX Settlement's compliance with their obligations under the Corporations Act on an annual basis. The RBA also may in writing determine standards for ensuring that ASX Clear and ASX Settlement conduct their affairs in a way that causes or promotes overall stability in the Australian financial system. Further, both ASX Clear and ASX Settlement are subject to the regulatory oversight of the Australian Competition and Consumer Commission.

Products discussed in the document

Two basic types of options (collectively, **Options**) are discussed in this document:

1. options on individual securities that are listed and traded on ASX (**Equity Options**), and
2. options based on the S&P/ASX 200 Index (**Index Options**).

In 1976, the Australian Options Market, the predecessor options exchange to the ASX, commenced trading in equity options - the first options market to be established outside North America. Currently Equity Options and Index Options are traded on ASX. ASX is the primary market for most stocks underlying the Equity Options and stocks included in the indexes underlying the Index Options. ASX also lists certain Equity Options where the primary market for the stock underlying the Equity Option is an exchange other than the ASX. ASX prohibits ASX Participants (as defined below) from accepting orders from Eligible Broker-Dealers or Eligible Institutions in the United States for Equity Options unless: (1) ASX is the primary market for the stock underlying the Equity Option, or (2) if ASX is not the primary market for the stock underlying an Equity Option, ASX has in place a market-to-market information sharing arrangement with the primary market for the underlying stock that would allow ASX to obtain information necessary to investigate a suspected manipulation or other trading abuse. Options on other security indices may be introduced in the future and may, where consistent with rules of the SEC and the SEC no-action relief granted to ASX, subsequently be made available to U.S. Persons to whom this document is made available.

The potential risks which apply generally to all aspects of options transactions are assumed to be known to readers of this document. Specifications for ASX Equity Options and Index Options essentially mirror those of options listed on U.S. exchanges. Equity options are standard American-style options settled by delivery of the underlying equity. Standard European-style Equity options are listed by ASX on request. Index options are standard cash settled European-style options. Contract specifications are explained in Section 6.

Eligible U.S. Investors

ASX may only familiarize U.S. persons that are broker-dealers registered with the SEC or large financial institutions that, in either case, are 'Eligible Broker-Dealers' or 'Eligible Institutions' with ASX Equity Options and Index Options. To be Eligible, each such an entity must (i) be a 'qualified institutional buyer' as defined in Rule 144A(a)(1) under the Securities Act, or an international organization excluded from the definition of 'U.S. person' by Rule 902(k)(2)(vi) of Regulation S under the Securities Act; and (ii) have had prior actual experience with options traded in the U.S. standardized or 'listed' options market (and, therefore, would have received the disclosure document for U.S. standardized options called for by Rule 9b-1 under the Exchange Act).

In addition, ASX rules require that participants of ASX (**ASX Participants** or **ASX Market Participants**) obtain written representations from any Eligible Broker-Dealer or Eligible Institution, signed by an appropriate officer, to the following effect:

1. It is a 'qualified institutional buyer' as defined in Rule 144A(a)(1) under the Securities Act and, as such, it owns and invests on a discretionary basis a specified amount of eligible securities sufficient to be a qualified institutional buyer under Rule 144A (and if a bank, savings and loan, or other thrift institution, has a net worth meeting the requirements of Rule 144A);
2. It has had prior actual experience in the U.S. standardized options markets and as a result thereof has received the options disclosure document entitled 'Characteristics and Risks of Standardized Options' that is prepared by the Options Clearing Corporation and U.S. options exchanges;
3. It has received a copy of this document;
4. Its transactions in Options will be for its own account or for the account of another Eligible Broker-Dealer or Eligible Institution or for the managed account of a non-U.S. person within the meaning of Rule 902(k)(2)(i) of Regulation S under the Securities Act;
5. It will not transfer any interest or participation in an Option it has purchased or written to any other U.S. person, or to any person in the U.S., who is not an Eligible Broker-Dealer or Eligible Institution;
6. It will cause any disposition of an option that it has purchased or written to be effected only on ASX and to be settled at the ASX Settlement in Sydney. It understands that any required payments for premium, settlement, exercise or closing of any ASX option in respect of which it has a contract with a Market Participant must be made in Sydney and in Australian Dollars. It also understands that, if in relation to an option it has a contract with a Market Participant as a writer of such options, margin must be provided to that Market Participant, and maintained, measured and deposited in Australian Dollars.
7. If it is an Eligible Broker-Dealer or Eligible Institution acting on behalf of another Eligible Broker-Dealer or Eligible Institution that is not a managed account, it has obtained from the other a written representation to the same effect as the foregoing and will provide it to the Market Participant upon demand; and
8. It will notify the Market Participant of any change in the foregoing representations prior to placing any future order, and the foregoing representations will be deemed to be made with respect to each order it gives to a Market Participant.

Market Participants that are not U.S. registered broker-dealers may deal with Eligible Broker-Dealers or Eligible Institutions only in accordance with Rule 15a-6 under the Exchange Act, principally through U.S. registered broker-dealers as provided in such Rule.

2. OPERATION OF THE ASX MARKET

General

ASX currently lists Equity Options on approximately 64 equities of leading Australian companies as well as on the S&P/ASX 200 Index. At the close of calendar year 2011 ASX had approximately 25,000 individual options series listed.

In calendar 2011, trading volume for S&P/ASX 200 Index options was 10,321,625 contracts.

In calendar year 2011, trading volume for single stock equity options (excluding LEPO contracts) was 108,859,212 contracts.

Participants

Overlapping admission criteria apply for participation in each of the three ASX Group companies (trading, clearing and settlement) and such criteria are related to the facility being provided.

ASX Market Participants

There are essentially two types of Market Participants on ASX markets: (1) a Trading Participant who has trading permission in respect of one or more products or trading platforms and who enters into trades for itself and its customers, and (2) a Principal Trader who has trading permission in respect of one or more products or trading platforms which is limited to allowing it to only enter into market transactions on its own behalf.

To become an ASX Market Participant, an applicant must first apply to the ASX and meet the requirements outlined in the ASX Operating Rules and Procedures (**ASX Operating Rules**)[2]. Under the ASX Operating Rules, an applicant must be a corporate body. ASX Operating Rules also require that the applicant has organizational competencies that are adequate for the applicant to meet its obligations as a Market Participant, and have appropriate clearing and settlement arrangements in place (thus if the applicant is not itself eligible to clear and settle the relevant transactions it must have appropriate clearing and settlement arrangements in place with other clearing and settlement Participants). In the case of a Trading Participant acting on behalf of clients, an applicant must also comply with the capital requirements which are contained in ASX Operating Rules and must, except where exempted by ASIC, obtain an Australian Financial Services Licence (**AFSL**). Once an applicant is admitted it is also subject to the ASIC Market Integrity Rules which include management structure requirements and a requirement to have professional indemnity insurance in place if trading on behalf of clients.

A corporate entity must be incorporated as a company under the Corporations Act and not applying in its capacity as a trustee of a trust, or be registered as a foreign company under the Corporations Act and not applying in its capacity as a trustee of a trust. A foreign company must also have a nominated ASX Clear Participant and ASX Settlement Participant located in Australia and have its trading operations regulated by an acceptable foreign derivatives or securities exchange or regulatory authority. The ASX may also require a foreign applicant to provide additional undertakings in respect of other matters that ASX considers reasonable, to provide a legal opinion (paid for by the applicant) that deals with matters required by ASX and post a performance bond.

If an ASX Market Participant chooses to clear for itself (and other Market Participants), it must apply to become an ASX Clear Participant. If an ASX Market Participant chooses to settle for itself (and other Market Participants), it must apply to become an ASX Settlement Participant. Alternatively, an ASX Market Participant who is not an ASX Clear Participant or an ASX Settlement Participant must clear and settle trades through an ASX Clear Participant and an ASX Settlement Participant. Thus, an ASX Market Participant may outsource its clearing (termed third party clearing) and settlement processing and commitments to a General Clearing and General Settlement Participant (these terms are discussed further below). This may provide greater flexibility in the way an ASX Market Participant structures its business.

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2 See http://www.asxgroup.com.au/rules-guidance-notes-and-waivers.htm.

ASX Clear Participants

There are two types of ASX Clear Participants (**ASX Clear Participants**): (1) a Direct Participant, and (2) a General Participant. A Direct Participant is an ASX Clear Participant who is a Market Participant admitted to ASX Clear to clear a category of market transactions for itself and its own clients. A General Participant is an ASX Clear Participant admitted to ASX Clear to clear a category of market transactions for: (1) itself and its own clients, (2) other ASX Clear Participants and their clients, and (3) Market Participants and their clients.

In order for an entity to become an ASX Clear Participant, it must apply to ASX Clear and meet the requirements in the ASX Clear Operating Rules, Policies and Procedures (**ASX Clear Operating Rules**). Under the ASX Clear Operating Rules, an applicant must be a corporate body incorporated under the Corporations Act or registered as a foreign company under the Corporations Act, have personnel located in Australia (if incorporated or resident outside Australia), obtain an AFSL which authorizes the applicant to carry on its business as an ASX Clear Participant, meet business integrity requirements in ASX Clear Operating Rules, meet management standards in ASX Clear Operating Rules, have facilities, procedures, personnel and financial resources that are adequate for the applicant to meet its obligations as an ASX Clear Participant, comply with the capital regime requirements, have insurance in place, and comply with any other conditions that may be imposed by ASX Clear. Further, if the applicant seeks to be authorized to clear options market transactions but is not or does not seek to be authorized to clear transactions in the underlying cash markets associated with the options market transactions, it must appoint an ASX Clear Participant which is authorized to clear the underlying market transactions and enter into, and maintain, a clearing agreement with that other ASX Clear Participant. In addition, if the applicant is not itself able to settle cash market transactions in an Approved Settlement Facility (see discussion below), it must appoint a Settlement Participant and maintain a settlement agreement with that Settlement Participant.

ASX Settlement Participants

An ASX Settlement Participant (**ASX Settlement Participant**) can apply to become either: (1) a Settlement Participant, or (2) an Account Participant. An ASX Settlement Participant may either be a General Participant or a Specialist Settlement Participant. A General Settlement Participant is an ASX Settlement Participant who may settle transactions for: (i) itself and its own clients; or (ii) other ASX Settlement Participants and their clients. A Specialist Settlement Participant is an ASX Settlement Participant who may settle transactions for restricted purposes. Generally the participation exists in the settlement facility for a defined period of time for a defined settlement function (for example, a bidder in a takeover offer where the Specialist Settlement Participant acts on behalf of the issuer). An Account Participant is an ASX Settlement Participant who only holds assets in the settlement facility on behalf of its own clients (for example, a financial planner who controls securities on behalf of its client). An Account Participant does not participate in daily settlement and must use a General Settlement Participant to perform that function on its behalf.

In order to become an ASX Settlement Participant, an entity must apply to ASX Settlement and meet the requirements outlined in the ASX Settlement Operating Rules and Procedures (**ASX Settlement Operating Rules**).[3] Under ASX Settlement Operating Rules, an applicant must have personnel located in Australia (if incorporated or resident outside Australia), obtain an AFSL which authorizes the applicant to carry on its business as an ASX Settlement Participant (if applicable), meet business integrity requirements in ASX Settlement Operating Rules, have facilities, procedures, personnel and financial resources that are adequate for the applicant to meet its obligations as an ASX Settlement Participant, comply with the technical and performance requirements in ASX Settlement Operating Rules, meet performance bond requirements in ASX Settlement Operating Rules (if applicable), and comply with payment facility requirements in ASX Settlement Operating Rules (if applicable). Further, an applicant must appoint an ASX Settlement Participant and maintain a Settlement Agreement with that ASX Settlement Participant (for Account Participants only), if the applicant is not able to settle cash market transactions in an approved settlement facility.

[3] See http://www.asxgroup.com.au/rules-guidance-notes-and-waivers.htm.

Trading Procedures

ASX Options have been electronically traded since 1997. In 2006, ASX adopted an integrated trading system (**ITS**) which provided a single trading platform for derivatives and equities (the **Trading Platform**). In December 2010, ASX retired **ITS** and introduced **ASX Trade**, a NASDAQ OMX ultra-low latency trading platform based on NASDAQ OMX's Genium INET system. **ASX Trade** has a system latency of 300 microseconds. Like **ITS**, **ASX Trade** provides a single trading platform for both derivatives and equities.

All ASX Option trading terminals that are owned by ASX are located in Australia. ASX Market Participants may be located outside of Australia, and may initiate transactions from a location outside of Australia.

Orders are entered into Market Participants' terminals and transmitted to the market via the central order book on ASX's host computer, which in turn sends the order to the hardware gateway for each Market Participant. Market Participants see and execute orders through their desktop order management software, which interacts with and shows them the central order book. Orders are executed on a price and time priority basis and execution is performed by responding to a bid or offer that appears on the Trading Platform. Simultaneously, the trade information is announced automatically through the Trading Platform. All trading activity is monitored and observed by ASX through the use of a surveillance computer system which monitors in real-time all trading information and highlights any unusual price or volume movements. After a customer order is executed, a confirmation must be produced by the relevant Market Participant detailing the terms of the execution. This confirmation must be provided to the customer as soon as is practicable.

Orders may be placed as a **Market Order** (an order for immediate execution) or a **Limit Order** (an order that specifies a price). Such orders must also specify whether they are 'good for day' (any untraded balance of the order will remain in the market until the end of the trading day), 'fill and kill' (seek to transact the entire quantity immediately and delete any untraded balance), or 'fill or kill' (seek to transact the entire quantity immediately or do not transact at all).

Multiple leg transactions such as covered calls, spreads, and rolling from one expiration to the next as well as equity contingent strategies, such as a buy write strategy (buy stock, sell call option), may be entered and all legs electronically executed simultaneously through the Trading Platform's Tailor Made Combinations (each a **Tailor Made Combination** or **TMC**) facility. A TMC can be comprised of: (1) all option legs (**Market Combination**), or (2) an option leg(s) plus an equity leg(s) (a **Cross-Market Combination**). Participants can create and enter orders for a TMC, which are then displayed to all Participants in the central orderbook (which is called TradeMatch). Once a particular TMC has been created any Participant can then enter orders to trade the full TMC exactly (i.e. all component legs of the TMC). A Market Participant can also enter single series orders in component legs that make up the TMC in the central orderbook. If a TMC is made up of three component legs and a Market Participant places an order that only pertains to two of the components it is treated as the creation of a new TMC. The Trading Platform will then seek to match the combination order with single series orders or with other combination orders. Each ASX Market Participant is limited to no more than 4000 TMCs per day. All component legs that make up a TMC must be executed simultaneously.

The Trading Platform will create 'derived orders' (a derived order is an order that is computer generated based on a TMC entered into the Trading Platform) in each leg of a Market Combination (the component Contract Series only). The system will then seek to simultaneously trade against orders for single Contract Series that together satisfy the net price and quantity of the TMC order.

An example of a derived order is as follows:

Assume an ASX Participant wants to roll an April expiration option into an option series expiring in May, for a net credit of 20 cents.

Current market prices are:

	Bid	Offer
April expiration	28	32
May expiration	49	55

Entering the combination as a TMC would result in the Trading Platform generating an offer in the May expiration at 52 cents. If the offer of 52 cents is traded, then the system would automatically transact the purchase of the April options at 32 cents. The result is that you have traded the combination for the net credit of 20 cents.

The Trading Platform will, based on this TMC, also create a derived order in the April expiration series (a bid of 29 cents). If this bid is traded, the May leg will automatically be traded to result, again, in the sale of the combination for 20 cents.

As the market in either leg moves, the derived orders will be adjusted to maintain the required 20 cents credit.

The derived order feature ensures that every combination order has the best possible chance of being filled. The greater number of orders in the system will also significantly improve options market liquidity.

For further information on TMCs, please see www.asx.com.au/products/options/trading_information/tailor_made_combinations.htm.

Tick Size

All orders may only be entered in the market using the following tick sizes:

Tick Sizes		
Security	**Premium Range**	**Tick Size**
Equity Options	0 to 0.9 cent	.1 cent
	Equal to or greater than 1 cent	0.5 cent
Index Options	ALL	1.0 point

As the above table illustrates, for Equity Options, when the premium is less than 1 cent, the tick size will be 0.1 cent and if the premium is 1 cent or more the tick sizes will be 0.5 cent. The tick size for all Index Option is 1.0 point.

ETO Character Codes

In October 2008, ASX introduced a six character code for ETOs. The 6 character code allows ASX even greater strike listing capacity.

Market Making

Market makers play an important role in the options market. Market makers compete against one another while trading on their own account and at their own risk. They can be either individuals or firms. Under contractual arrangements with ASX, they are incentivised (with lower fees) when achieving benchmark quoting requirements.

The quoting requirements are to ensure liquidity in the market, so that traders are more easily able to trade into and out of an option position. Market makers are required to provide buy and sell orders (i.e. firm buy and sell prices at a maximum spread and for a minimum number of contracts) in certain series for a required percentage of the time that the market is open and to provide individual series price quotes on request. The maximum elapsed time before responding to a Quote Request or replacing Continuous Orders is 30 seconds. The minimum duration of an order is 30 seconds. An order can be amended on condition that the minimum quantity and the maximum spread is maintained. Market makers enter their orders into the Trading Platform like all other Market Participants and during the same trading hours as all other Market Participants.

ASX introduced a new market making scheme on 28 March 2011. Market makers' quoting requirements, under this scheme, are summarised below.

Each market maker is contracted to provide orders for one or more Classes in which they must meet ASX's volume and spread obligations. This involves quoting sending buy and sell orders for a certain number of series, and/or responding to requests from other Market Participants for prices.

For each option Class for which a market maker is responsible there are three benchmark requirements on which incentives are based. The market maker's benchmarks are judged on their performance in making markets in certain series on a Continuous Basis **and** on making markets in response to Quote Requests in certain series.

Continuous Orders Benchmark – The market maker is required to provide orders for a required percentage of the time that the market is open in eighteen series per underlying security, encompassing three calls and three puts in three of the next six expiration months. The options series in each case are the at-the-money, the next in-the-money and the next out-of-the-money, each order being for at least the minimum quantity and at, or within, the maximum spread based on the previous day's closing price. The required minimum percentage for meeting the required quoting benchmark on Continuous Orders is 50% of the time that the market is open.

Quote Request Benchmark - The market maker is required to provide orders on request for all series up to twelve months maturity in a class for the minimum quantity and at or within the maximum spread. The required minimum percentage for meeting the required Quote Requests quoting benchmark is 50% of the time that the market is open.

Combined Benchmark - The market maker also needs to achieve an average combined benchmark of 70% from both the Continuous Quoting Benchmark **and** the Quote Request Benchmark. In any options class the market maker is deemed to have not met the required benchmark if they have not achieved a;

- minimum of 50% on the required Continuous Orders Benchmark; and
- minimum of 50% on the required Quote Request Benchmark; and
- a combined minimum average of 70% on Continuous Orders Benchmark **and** Quote Request Benchmark.

In practical terms this means that if a market maker meets the Quote Request Benchmark 61% of the time and the Continuous Orders Benchmark 83% of the time, that is a pass. However, if a market maker meets the Quote Request Benchmark 49% of the time and the Continuous Orders Benchmark 99% of the time, this would be a fail.

The market maker fee incentive is dependant upon the number of options Classes they contract to make markets in with ASX. The more Classes that they are responsible for the lower the trading fees are when they achieve the required quoting benchmarks in that Class. When a market maker does not meet the minimum required quoting benchmarks they are charged higher fees by the ASX. Furthermore their fee incentivisation is based across the portfolio of Classes in which they are contracted i.e. a poor benchmark performance in certain less liquid Classes may result in the market maker paying a higher fee in the more liquid Classes.

Minimum Contracts & Maximum Spreads

Each security over which exchange traded options are traded has a category designated by ASX. ASX has 4 different categories. The 4 categories of securities are: Category 1 Classes; Category 2 Classes; Category 3 Classes and Index Class. A security is placed in a category by reference to the liquidity of such security. Category 1 stocks are the most highly liquid category of ETOs whereas Category 3 stocks are the least liquid category. The category of the security determines:

- the minimum number of contracts for which the market maker must quote a price;

Option Class Category	Minimum number of contracts
Category 1 Class	30
Category 2 Class	20
Category 3 Class	10
Index Class	5

The maximum spread (the difference between the bid and offer prices) that the contracted market maker(s) may quote when making a market is broken into 6 tables and dependant upon that Class's underlying stock/index price.

Trading Halts

Trading in Equity Options and Index Options may be suspended when any of the following events occur:

a) when trading in the underlying security has been suspended on ASX unless ASX determines that a suspension is not appropriate in the interest of maintaining a fair, orderly and transparent market;

b) if ASX considers that trading activities in the options contract are not ensuring that the market is operating in a fair, orderly and transparent manner; or

c) if ASX considers that access to a trading platform is generally affected because of a systems or communications failure.

Visibility of Quotes and Transactions

ASX sells market data to the professional market domestically and internationally through major international market data vendors, such as Reuters, and ASX distributes substantial quantities of market information free, including over ASX's website: www.asx.com.au. The information on each series of Equity Options and Index Options includes:

1. exercise price and expiration month, price information (open, high, low and close), consecutive price change information;
2. current bid and offer quotations and quantities;
3. trading volume by option series and total trading volume; and
4. open position of each options series as well as open position of all options series on each underlying security.

Market Opening for the Securities Market

As discussed below, the settlement price for index options is calculated by reference to the opening price of component stocks. ASX staggers the opening of securities in the equities market, with securities opening in five tranches, according to the initial letter of the security name. The staggered opening means it is not possible for the entire market to be traded in one 'hit' during the opening period.

Opening takes place at 10:00 a.m. Sydney time and lasts for about 10 minutes. The Trading Platform calculates opening prices during this phase. Securities open in five successive groups, according to the starting letter of their ASX code:

Group 1 A-B	Group 3 G-M	Group 5 S-Z
Group 2 C-F	Group 4 N-R	

3. CLEARING AND SETTLEMENT

All payment rights and obligations with respect to all ASX options classes are settled daily on T+1. These include premiums, margin, mark-to-market amounts, fees and taxes. In addition, each option class has particular final settlement characteristics as detailed below.

Equity Options

The settlement of an exercised/assigned equity option is made by delivery versus payment (**DvP**) of the underlying security at the strike price. DvP settlements of security and cash are made through the ASX Settlement system, the Clearing House Electronic Subregister System (**CHESS**). DvP settlement must be made on the third business day following the day of exercise (E+3).

Index Options

Index options are cash-settled, with the settlement made on the business day following exercise (E+1). The final settlement amount at maturity is based on the opening price of each of the component stocks in the underlying index on the morning of the expiration date.

Exercise

Equity Options

On any day prior to expiration day, a buyer of an option who intends to exercise the option notifies its broker or the relevant ASX Participant who notifies the relevant ASX Clear Participant, who in turn notifies ASX Clear of the quantity of exercise of each option series. This exercise notice must be given to ASX Clear by 7:00 p.m. Sydney time via the Derivatives Clearing System (**DCS**). U.S investors need to be aware of, and take into consideration, their broker's own deadlines for exercise notices.

On expiration day, where the exercise notice is not given by the cut-off time, the Equity Option expires automatically. However, a mechanism is provided which permits an ASX Clear Participant to elect in advance that all, but not part of, its in-the-money options shall be automatically exercised on expiration. Alternatively, the ASX Clear Participant may elect that there shall be no automatic exercise and, rather, provide individual exercise notices as appropriate. In some instances ASX may impose a restriction on exercises. This is generally to ensure the fair, orderly and transparent operation of the market.

Index Options

Index Options are cash-settled and are European-style. This means they are exercisable only on the expiration date. No transfer of shares that represent the index takes place nor can these options be exercised before the expiration date.

When a buyer exercises an index option, the Clearing Participant notifies ASX Clear of the quantity of exercise of each option issue, and the exercise notice must be given by 7:00 p.m. Sydney time via the DCS. U.S. investors need to be aware of, and take into consideration, their broker's own deadlines for exercise notices.

If the exercise notice is not received by ASX Clear by the cut-off time on the day of exercise, the Index Option expires automatically. However, a mechanism is provided which permits an ASX Clear Participant to elect in advance that all, but not part of, its in-the-money options shall be automatically exercised on expiration. Alternatively, the ASX Clear Participant may elect that there shall be no automatic exercise and, rather, provide individual exercise notices as appropriate.

Allocation/Assignment

Equity Options

When the exercise notice is received, ASX Clear will make an allocation on the day of exercise to a writer of the same series. When making the allocation, ASX Clear will specify the account of the ASX Clear Participant to which the exercise notice is allocated.

ASX Clear Participants are required to establish the following accounts with ASX Clear, via electronic communication through DCS: (1) one or more accounts for proprietary trades; (2) an individual client account for each and every client on whose behalf they provide clearing services (i.e. no omnibus accounting); and (3) separate individual accounts for market making activity, regardless whether the market making may be proprietary.

When an ASX Market Participant executes a trade in the Trading Platform, a confirmation flows electronically to ASX Clear and to the ASX Clear Participant that is providing clearing services for the ASX Market Participant. Allocation to an account can then occur in a number of ways: (1) if the trade is from a market maker, the system automatically allocates it to the designated account; (2) if the trade has account information attached from the point of order entry, the system automatically allocates it to the designated account; (3) if the trade has no account information attached from the point of order entry, the ASX Clear Participant must take a positive action to allocate it to the appropriate account; and (4) if the trade has no account information attached from the point of order entry and the ASX Clear Participant does not take a positive action to allocate it to an account, the system will during end of day processing automatically allocate the trade to the ASX Clear Participant's Suspense Account and treat it as a proprietary transaction.

The above process occurs whether a trade is initiating a position or closing it. ASX and ASX Clear allow Market Participants to carry back-to-back open positions in both proprietary and client accounts. Therefore, ASX Clear Participants must match out positions by either setting the account override to 'auto – matchout' or sending individually entered match out messages to ASX Clear.

Through DCS, the process for exercise/assignment is electronic. The buyer must take a positive action to transmit an exercise notice message to ASX Clear before close of business, usually 7 p.m. Sydney time. This process can be automated if the client account override is set to 'auto-exercise' at expiration, which then will create exercise notices for any expiring positions which are in the money by any amount (minimum level cannot be set). DCS assigns a writer in the overnight batch process (between 7 p.m. and 9:30 p.m. Sydney time) using a random allocation algorithm and notice of assignment is sent to the writer when the system comes back on line (usually at 10 p.m. Sydney time). In the overnight process, DCS generates a cash market trade file with the relevant detail and sends this to the Trading Platform, the Trading Platform opens and transmits the trade information at 7:30 a.m. Sydney time with Exercised Call/Exercised Put indicators attached, which then flow immediately into CHESS. (See the discussion regarding CHESS in the section regarding settlement below).

All amounts for daily options settlement calculated in the overnight batch on T that are due for payment by Clearing Participants must be settled by 10:30 a.m. Sydney time on T+1. At expiration, or whenever else there has been an exercise/assignment, the physical settlement of the underlying shares (transfer of title and cleared funds) resulting from the exercise/assignment process takes place on T+3 from the date the exercise notice was transmitted from the buyer to ASX Clear. If the put buyer/call seller needs to purchase the underlying shares, they must go into the cash market to cover the reported transactions. This will normally cause the customer to miss settlement by at least one day (and may incur settlement fail fees) as the T+3 settlement period starts counting down from the date of exercise notice entry. Further, odd lot trading at ASX has been abolished and exact numbers of shares subject to the option contract are deliverable. While initially listing at 100 shares, adjustment events quite often cause this amount to vary. This can occur, for instance, in the case of a special dividend, a rights issue, or a stock split when an adjustment is made to the strike price and/or the number of shares in the option in order to maintain the original economic value of the option.

Expiration dates are the business day (usually Thursday, but may be an alternative day under some circumstances) preceding the last business Friday of the expiration month. Australian national holidays may affect this. (See Appendix 1 for a list of National holidays in Australia for 2012 and 2013.) Annual expiration calendars are accessible on www.asx.com.au where other options market information is posted.

Prior to expiration date, exercise notices will, as a rule, be assigned on the basis of random selection over a number of accounts that have written options. However, where an exercise notice is lodged for an option on the expiration date of that option and exercise notices have been lodged for all other options in the series, ASX Clear will assign the exercise notices to a single account or small number of accounts on a 'best fit' basis to minimize the number of resulting transactions in the underlying market.

Through DCS, ASX Clear provides ASX Clear Participants, on a daily basis, with on-screen views, reports and audit trails of all trade, position management, settlement and client set-up activity undertaken the previous and current business day, including:

- Trades;
- Allocations;
- Give ups/take ups;
- Transfers (inter account and inter participant);
- Open positions;
- Matchouts;
- Exercise/assignment;
- Collateral movement and holdings;
- Premium, fees, taxes, margin, mark-to-market, commissions (for give up/take up); interest (on cash margin cover);
- Creation, change or deletion of client account info;
- ASX and ASX Clear Participants;
- Market making obligations by class;
- All series listed for trading; and
- Expiration date and holiday calendars.

Index Options

The procedure for allocation and assignment of exercise for Index Options is the same as for Equity Options exercise notices lodged for the expiration date as described above.

Physical Settlement of Underlying Shares

As discussed above, the exercise of equity options results in a physical settlement of the underlying shares.

Settlement occurs on CHESS, a fully electronic messaging and transaction facility. Like all ASX infrastructure, proprietary software and intellectual property, it is owned by a wholly owned ASX subsidiary, ASX Operations Pty Limited (**ASXO**). In addition to processing the daily transfer of good title for cleared funds activity, it is essentially a 'name on register' system for holding and registering assets for the legal owner.

Australia does not operate a classic central depositary model and ASX Settlement Participants do not routinely hold assets in 'street name' (although they can, if that is their preference). A listed company's/issuer's register is composed of two parts, that which is represented in CHESS (known as broker-sponsored) and that which is represented on the listed company's books (known as issuer-sponsored). Each night, third party registry service providers, which access CHESS and maintain the issuer-sponsored registers, reconcile that the two together represent the declared issued shares of the listed company.

Following is a brief description of the processing of the daily transfer of good title for cleared funds activity:

- Cash market transactions flow immediately from execution in the Trading Platform to ASX Clear Participants in CHESS on T, novation to ASX Clear being at the point of trade;
- In the overnight batch on T+1, all buys and sells for each class of shares are netted, resulting in a single delivery or receipt for each class, plus a resultant funds pay/receive, again further netted across all classes to achieve a single funds pay/receive; ASX Settlement Participants see this information on T+2;

- ASX Settlement Participants have until 10:30 a.m. Sydney time on T+3 to ensure sufficient shares are in their system for delivery and/or sufficient funds are available with their correspondent bank/payment provider for payment obligations (preliminary figures are calculated and disseminated to such participants and their payment providers following the batch process on T+2)
- At 10:30 a.m. Sydney time on T+3 the final calculations are conducted as to available shares;
- Any shortage of shares for delivery results in a corresponding decrease in funds payable/receivable;
- Payment providers are provided with the amount of funds payable/receivable for each of their correspondent participants, and a netted single amount payable/receivable in the RBA's real time irrevocable payment system;
- Payment providers confirm obligations and title is transferred;
- Any failed share deliveries are rescheduled for the next day's batch and fail fees levied accordingly; and
- A failed payment may result in default proceedings being initiated (delivery failure is less than 1% and there has never been a payment default to the Clearing House).

Settlement by Closing Out Sales or Purchases

Equity Options

When a closing out sale or purchase is made on market, the ASX Clear Participant notifies ASX Clear, and ASX Clear sets off the rights and obligations of the ASX Clear Participant and ASX Clear under those options at that time and cancels their registration. This reduces the quantity of the closing transaction from the open positions of the ASX Clear Participant's own account or its customers' accounts as appropriate. The notice of closing out transactions must be given by 7:00 p.m. Sydney time on the day of the closing transaction. U.S. investors need to be aware of, and take into consideration, their broker's own deadlines for closing notices.

Index Options

The procedure for settlement by closing out trades on market Index Options is the same as for Equity Options described above.

4. SPECIAL FACTORS IN INVESTING IN ASX CONTRACTS

In addition to the general risks inherent in buying and writing listed options, including market supply and demand effects on the liquidity of particular options series, other special risk factors are present and should be considered in transacting in options in Australia. These factors include differences in currency, time zones, settlement periods and procedures, and market features. While many features of ASX's operation and self-regulation are similar to U.S. options exchanges, there are differences in market, contract and settlement features that are detailed in separate sections of this document.

Currency Exchange Rates

All Equity Option and Index Option premiums, settlements, margin and exercises are payable in Australian dollars, and a U.S. investor may need to take into account the exchange rate between the U.S. dollar and the Australian dollar. Any movement in the U.S. dollar versus the Australian dollar may alter profit and loss profiles for any ASX options position or strategy where the investor holds U.S. dollar exposure. The high and low currency exchange rates for one U.S. dollar over recent years have been as follows:

AU$/US$	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Low	0.4833	0.5068	0.5629	0.6819	0.7272	0.7021	0.772	0.6122	0.625	0.8069	0.9560
High	0.5714	0.5767	0.75	0.7972	0.7971	0.7913	0.9376	0.9786	0.9406	1.0253	1.1032

Source: Bloomberg

Time Zones and Holidays

The trading hours on the ASX for Equity Options are (Sydney Time):

	Pre-Open	Open	Late Trading
Time	07.00 - 10.00	10.00-16.20	16.20 - 17.00

Overseas trading can also occur outside these hours in accordance with the ASX Operating Rules.

Index options are traded:

	Pre-Open	Open	Pre-Night Trading	Open Night Trading
Time	07.00 - 09.50	09.50 -17.00	17.00 - 17.30	17.30 - 18.50

U.S. investors should take time zone differentials into account when timing investment decisions and when making required premium or margin payments. Sydney's time zone is 16 hours ahead of Eastern Standard time (Greenwich Mean Time plus 10 hours) and 14 hours ahead of Daylight Savings Time.

For U.S. investors, the time periods allowed by brokers for payment of a premium or provision of margin may be abbreviated by the time zone differential, since deadlines will be according to Australian time throughout. In this context, allowance may also have to be made for the time needed for U.S.-Australia communication. In addition, U.S. investors also need to take into consideration their broker's own deadlines for payments of premium or provision of margin.

There are days on which the ASX will be closed when U.S. businesses are open, and vice versa, because of differing national holidays. On average, there are approximately 5 national holidays in Australia that may not coincide with U.S. national holidays. Investors should be sure to obtain current information on when ASX will be closed, which is available on the ASX website and through all ASX brokers.

See Appendix 1 for Australian national holidays for 2012 and 2013.

5. ELIGIBILITY CRITERIA FOR LISTING

An eligible underlying security for options trading is one selected by ASX from securities listed on the ASX and which are, or will, in the opinion of ASX, be widely held and actively traded. When forming its opinion, ASX will consider the following guidelines:

1. the underlying securities must have an Australian issued capital of at least A$250 million domestic market capitalization;
2. the liquidity of the underlying securities, including off market trades, must be greater than 20% over the 6 months prior to consideration or since it was first listed (if it has been listed for less than 6 months). This figure is calculated by dividing the total value of turnover by the average domestic market capitalization;
3. The underlying securities are a component of the S&P/ASX 200 index; and
4. ASX has at least 2 market makers willing to contract into that Equity Options Class.

In addition to the quantitative guidelines, ASX will, in special circumstances, give regard to other specific factors, such as potential market demand, when considering underlying securities.

For further details on ASX policy regarding the listing of Equity Options (by both ETO Class and Expiration Months) please see the "Equity and Index Options Listing Guidelines for ASX equity markets."

http://www.asx.com.au/documents/resources/Options_Listing_Guidelines_Feb_12.pdf

6. CONTRACT SPECIFICATIONS

Overview of products

There are two products discussed in this paper: Equity Options and Index Options. Equity products are discussed in Section 6.A. and index products in Section 6.B. In the absence of specification, all Index Option conditions are the same as for Equity Options.

This table demonstrates the similarities between US and Australian contract specifications.

Equity Options			
	U.S.	**ASX**	**Difference**
Exercise style	American	American European on request	Yes
Exercise intervals	Set by exchange according to underlying value	Set by exchange according to underlying value	Nil
Underlying asset	Exchange traded securities	Exchange traded securities	Yes, as to option listing eligibility requirements*
Number of shares per contract	100	100	Nil
Expiration Months	Two near term months plus two additional months from the January, February or March quarterly cycles	For existing Category 1, Category 2 & Category 3 ETO Classes ASX will list series with the first 6 maturity months and then only March, June, September and December expiry months out for a period of 2 years. For maturities in year 3 ASX will only list June and December expiry months. ASX will not list Category 1, Category 2 or Category 3 ETO series with expiries beyond 3 years. As a general rule, for new Category 1, Category 2 & Category 3 ETO Classes ASX will list series in the first 6 maturity months only. At the end of a six month 'trial' period ASX will make a decision to either list out to a 3 year maturity (as described above) or stop listing new series altogether.	Yes
Expiration Date	Saturday following the third Friday of the expiration month	Thursday before the last Friday in the Month	Yes
Settlement	T+1	T+1	Nil
Exercise	E+3	E+3	Nil

Index Options			
	U.S.	**ASX**	**Difference**
Exercise style	European	European	Nil
Exercise intervals	Set by exchange according to underlying value	Set by exchange according to underlying value	Nil
Underlying asset	Indices	Indices	Nil
Expiration Months	Up to three near-term months on the March quarterly cycle	XJO ETOs: March, June, September, December up to six quarter months ahead and serial months up to two non-financial quarter months ahead	Yes
Expiration Date	Saturday following the third Friday of the expiration month	Third Thursday of the contract month.	Yes
Settlement	T+1	T+1	Nil
Exercise	E+1	E+1	Nil

6A. INDIVIDUAL EQUITY PRODUCTS

Equity Options

Equity Options are standard American-style call (or put) options or European-style on request, and give the buyer the right to buy (or sell) 100 of the underlying shares at the exercise price at specified future date in return for the payment (or receipt) of the premium.

Expiration Day and Maturity Cycles

Equity Options expire on standard expiration days set by ASX. The expiration day is the day on which all unexercised options in a particular series expire and is the last day of trading for that particular series. For Equity Options this is usually the Thursday before the last Friday in the month. However, ASX has the right to change this date should the need arise.

For further details see the section 'Expiration Months' in the table above.

Exercise Prices

Equity Options

The exercise price is the predetermined buying or selling price for the underlying shares if the option is exercised. ASX sets the exercise prices for all options listed on ASX's options market. Usually there is a range of exercise prices available for options with the same expiration day. New exercise prices are listed as the underlying share price moves. Typically, the range of exercise prices includes one exercise price close to the current price of the underlying share with two exercise prices above and two exercise prices below the current share price.

Exercise prices may also be adjusted during the life of the option if there is a new issue or a reorganisation of capital in the underlying shares which, like corporate actions in the United States, may take the form of a share split, a bonus issue or a share buyback. Adjustments also occur for special dividends.

Contract Size

When the ASX options market was introduced in 1976 the standard option contract size was 1,000 underlying shares. That is, one option contract represents 1,000 underlying shares.

In May 2011, ASX changed the standard option contract size to 100 underlying shares.

The standard contract size may change if there is an adjustment such as a new issue or a reorganisation of capital in the underlying share.

Note: prior to May 2011, information concerning trading activity on ASX that is tied to contract size (e.g., volume statistics or per-share fees and charges) has not been adjusted and is expressed in terms of the former 1,000 underlying share contract size.

Contract Adjustments

The specifications of option contracts listed on ASX's options market are standardised as much as possible.

However, ASX may make adjustments to options to preserve, as far as practicable, the value of positions in options held by buyers and writers. Adjustments are made as a result of corporate events that affect the value of the underlying, such as a bonus issue, share split or rights issue. The methodology used to calculate adjustments is similar to that used by options markets in the United States.

Adjustments may be made to one or more of the components of an option, including exercise price, contract size, underlying securities, and number of contracts. With some events, ASX has adopted adjustments which are understood by the market to be conventions which will be applied when those circumstances arise. These adjustments are set forth in the ASX Operating Rules.

Adjustments assume that a relevant corporate event has an ex-date or a deemed ex-date, and that the event affects the underlying securities. Thus, adjustments are usually declared effective on such date. ASX considers that the value of the option to both the buyer and the writer is best preserved over the ex-date by maintaining the total exercise value and assuming that the total volatility of the underlying securities remains constant.

The total exercise value is the product of three parameters:

1. the quantity of option contracts;
2. the number of the underlying securities represented by the option contract; and
3. the exercise price of option contracts in the series.

Corporate events that do not strictly affect shares in a pro-rata manner (that is, proportionally) are generally excluded from an option adjustment. For instance, an entitlement issue of 500 shares for each shareholder, (irrespective of the number of shares held by a shareholder) is not a strictly pro-rata issue, however, a bonus issue of 1 share for 2 shares would result in an adjustment as it is a pro-rata issue of 500 new shares for each 1000 old shares held.

The various adjustment circumstances are set out in the ASX Operating Rules. For further explanation on contract adjustments, there is also a detailed treatment of option adjustments, entitled *Explanatory Note for Option Adjustments*, on the ASX website at the following address:

http://www.asx.com.au/documents/products/Explanatory_Note_for_Option_Adjustments.pdf

Position Limits

Participants are prohibited from holding an aggregate position exceeding the position limits determined by either ASX or ASX Clear. The position limits may be determined in relation to a number of positions in a series, class or delivery month. The position limit may restrict the number of options which may be registered with ASX Clear in one or more accounts or in accounts generally. Currently, the only limit set is on the number of options in a class. Specifically, the number of underlying securities represented by the net naked written call options cannot exceed 10% of the issued securities of the underlying class.

Premiums

Equity and Index Options

The premium is the price of the option which is determined by negotiation between the buyer and the writer of the option. Equity Option premiums are quoted on a cents per share basis. To calculate the full premium payable for a standard size option contract, multiply the quoted premium by the number of shares per contract, usually 100. For example, a quoted premium of 16 cents represents a total premium cost of A$16.00 ($0.16 x 100) per contract.

In the case of Index Options, to calculate the premium payable, multiply the quoted premium by the index multiplier (currently A$10). For example, an Index Option with a quoted premium of 30 points represents a total premium of $300 per contract.

Payment and receipt of premiums between ASX Clear Participants is managed by ASX Clear. The premium payable will be debited from the account of the Buyer and credited to the account of the Seller at the time the transaction is registered with ASX Clear, at T+1.

Margin Requirements

Margin is payable by all writers of options. Margin is designed to protect the financial security of the market. Margin is paid by ASX Clear Participants to ASX Clear to cover options position obligations with ASX Clear. ASX Clear Participants' clients in turn pay margin to ASX Clear Participants. The ASX Clear Participant's margin requirement for its client may be different from the margin requirement calculated by ASX Clear for the Participant. Therefore, there is only one level of margin being paid to ASX Clear by the ASX Clear Participants. As ASX Clear novates these contracts and operates as a central counterparty to all ASX Clear Participant buyers and sellers, it interacts with ASX Clear Participants as principal; it has no relationship with clients of the ASX Clear Participant.

ASX Clear monitors the overall counterparty risks in the market to ensure risk issues are addressed early, and requires ASX Clear Participants to promptly meet all ASX Clear margin obligations (as cash or securities lodged as collateral) to ensure risks are appropriately covered. Margin obligations are calculated at the end of trading each day. ASX Clear notifies each ASX Clear Participant of its margin obligations, based on the aggregate of the ASX Clear Participant's customer accounts, which must be lodged with ASX Clear by 10:30 a.m. Sydney time on T+1. Margin is the amount calculated by ASX Clear as necessary to cover the risk of financial loss on an option contract due to an adverse market movement. The margining process is quite sophisticated. A full outline of the margining process is given in the ASX publication "Margins" which can be downloaded from the ASX website, at http://www.asx.com.au/documents/resources/UnderstandingMargins.pdf.

ADMS Margin Calculation

ASX Clear calculates margin for Equity Options and Index Options using a system known as ASX Derivatives Margining System (**ADMS**).[4] ADMS takes into account the volatility of the underlying security when calculating margin obligations. The total margin for options is made up of two components:

1. Premium Margin: the premium margin is the market value of the position at the close of business each day.
2. Risk Margin: the risk margin covers the potential change in the price of the option contract assuming the maximum probable movement (volatility) in the price of the underlying security over one and two days. The volatility figure, expressed as a percentage of the price of the underlying security, is known as the margin interval.

If a client has a number of option positions open, ADMS will evaluate the risk associated with the entire options portfolio and calculate the total margin obligation accordingly. It is possible that some option positions may offset others, leading to a reduction in a client's overall obligation. ASX Clear Participants will then require the client to provide cash or collateral to cover the margin obligations. There is a range of collateral that is accepted by ASX Clear from ASX Clear Participants; this includes certain shares and bank guarantees. ASX Clear Participants

[4] ASX Clear intends to migrate its margining to the Chicago Mercantile Exchange's (CME) SPAN model in Q4, 2012. Refer to http://www.asx.com.au/clearing/cme-span-v4-0.htm for further timing information.

may or may not be more flexible than this list in terms of the range of collateral they accept from clients. ASX Clear applies a 'haircut' in relation to the value of some collateral to protect against a sudden fall in the value of collateral held. Margin is recalculated on a daily basis to ensure an adequate level of margin cover is maintained. As a result, ASX Clear Participants may have to increase their level of margin cover if the market moves against their clients, or the margin may be reduced if the market moves in their clients' favour.

Posting Margin and Collateral

Clients of ASX Clear Participants are expected by those participants to meet any option margin calls promptly, usually within 24 hours of being advised of the margin call by ASX Clear Participants. If a client does not meet the margin call in time, the ASX Clear Participant can take action to close out the client's position without further reference to the client. U.S. investors need to be aware of, and take into consideration, their broker's own deadlines for provision of margin.[5]

Margin may be deposited in certain types of collateral in lieu of cash. ASX Clear accepts from ASX Clear Participants certain collateral including, for example, ASX Top 200 securities and bank guarantees from ASX Clear approved banks. ASX Clear Participants may allow clients to provide collateral as security to the ASX Clear Participant which is different from that accepted by ASX Clear. In addition, in the event that the ASX Clear Participant's margin obligation is less than the value of the collateral which ASX Clear requires at any particular time, an ASX Clear Participant may (subject to client instructions) hold on to that surplus or return it to the client.

Adequate cover must be maintained for all margin obligations at all times. Shortages are required to be covered by ASX Clear Participants to ASX Clear on the day called, with ASX Clear Participants generally calling clients to comply within 24 hours. ASX Clear Participants are entitled to request the return of any excess.

U.S. investors will need to make arrangements with their broker to satisfy any margin obligations either through depositing Australian dollars or through a facility to convert U.S. dollar deposits into Australian dollars or other forms of permitted collateral.

6B. INDEX PRODUCTS

Index Options

Index Options provide exposure to the securities comprising a sharemarket index. Whereas the value of a share option varies according to movements in the value of the underlying security, an Index Option varies according to movements in the underlying index. Index Options are standard European-style cash-settled options, similar to index options trading on U.S. options markets.

The Underlying Indices

The S&P/ASX indices measure the Australian equities market. The indices rely on Standard and Poor's index methodology and construction. The S&P/ASX 200 and the S&P/ASX 200 A-REIT indices are the investable benchmarks for the Australian market.

Index Options are currently available over the following indices:

1. S&P/ASX 200 Index – The S&P/ASX 200 index covers approximately 80% of the Australian equity market capitalisation. It captures a broad market representation, while maintaining underlying investability and liquidity.

2. S&P/ASX 200 A-REIT Index — Contains the listed vehicles in the S&P/ASX 200 index that are also classified as A-REITs. A-REITs own property and derive income from rental returns. A Global Industry Classification System (**GICS**) A-REITs sector has been created for the Australian market, where A-REITs are treated almost as a separate asset class to equity, and are often managed on a separate basis. This is a Standard and Poor's sector index containing listed securities classified as A-REITs. Note: there are currently no Options available over the S&P/ASX 200 A-REIT Index.

[5] See also the discussion regarding Special Factors in Investing in ASX Contract in Section 4 above.

All S&P/ASX indices are maintained by the S&P Australian Index Committee the (**Index Committee**), a team of 5 members representing both Standard and Poor's and ASX. The Index Committee is responsible for setting policy, determining index composition and administering the indices in accordance with the S&P/ASX Index Methodology. The Index Committee meets regularly and on an ad hoc basis should circumstances so dictate. The Index Committee follows a series of published guidelines to determine index additions and removals on a quarterly basis. The methodology adopted by Standard and Poor's is structured to minimize turnover in each Index. In turn, this promotes stability and transparency in the performance of each Index.

Each constituent of the and S&P/ASX 200 and the S&P/ASX 200 A-REIT is formally reviewed by the Index Committee on a quarterly basis (March, June, September and December) for compliance with market capitalization and liquidity requirements. Each quarterly review may result in the securities of one or more companies being deleted from an index and being replaced with the securities of a company which is not included in the index but better meets the index requirements.

The principal reason for the removal of a constituent company from an index at a quarterly review is the existence of a candidate company whose index capitalization (market capitalization adjusted by any downweighting factor applied to the securities of that company) is substantially greater than that of the constituent company which will be removed. Downweighting factors are discussed below.

Changes to the constituents of the index portfolio between quarterly reviews are confined to circumstances where a vacancy is created by acquisition or liquidation. Specifically, in the context of an acquisition, a company is removed from the indices when (1) a takeover offer becomes unconditional, (2) all regulatory approvals have been granted, (3) approval of the offer has been given by the board of directors of the offeree, and (4) there are no other bidders or blocking stakeholders.

S&P then announces to the market any impending deletion from the index and simultaneously announces a replacement company. Where possible, 5 business days' notice is provided.

The liquidity (or downweighting factors) used in the construction of the S&P/ASX indices are targeted at ensuring that an index weighting of each constituent can be acquired in approximately the same amount of time as each other constituent. The percentage of each constituent stock which is included in the index is adjusted so that each constituent is at least 50% as liquid as the market as a whole. Since the annualized liquidity (trade to market capitalization ratio) of domestic stocks listed on the ASX is currently around 60% per annum, the liquidity factors essentially target a situation where the minimum acceptable annual rate of stock turnover for an index constituent is 30% per annum.

The index construction process recognizes that turnover in a particular security will vary over time. In the interests of stability within the index portfolio:

- Liquidity is assessed over a 6 month period preceding each review. Median daily turnover is used as the basis for the assessment.
- The downweighting factor applied to a company is applied after any adjustment for free float (see footnote 7) and a further downweighting of 50% can be applied to ensure that each index component meets the minimum liquidity requirements.

The index construction rules for the S&P/ASX indices currently permit the inclusion of companies with a home exchange other than the ASX, provided there is sufficient turnover in the company's stock on the ASX to meet the liquidity requirements for the indices.

Complete details and updates of the S&P/ASX Index Methodology are available at www.StandardandPoors.com.au.

Computation/Constituents of the Underlying Indices

The S&P/ASX 200 and S&P/ASX 200 A-REIT Index are technically modified market capitalization price indices in which the modification to market capitalization (if any) of a constituent security is based on free float.[6] The free float market capitalization may be further adjusted to meet minimum liquidity (value of trades divided by market capitalization) requirements of the securities included in the index portfolio. The further modification to market capitalization is designed to ensure that the liquidity of each company (or part of a company's capitalization)

6 See www.StandardandPoors.com.au for additional information on the S&P/ASX Index methodology including the definition of "free float".

contained in the index is greater than 50% of the overall liquidity of the market as calculated using the daily turnover and market capitalization of the 500 largest Australian companies.

The S&P/ASX 200 A-REIT Index is a sectoral index and is a subset of the S&P/ASX 200 and comprises all capitalization adjusted constituents of the S&P/ASX 200 which are classified as A-REITs in accordance with the GICS implemented jointly by MCSI (Morgan Stanley Capital International) and Standard and Poor's.

The index algorithm used for both the S&P/ASX 200 and S&P/ASX 200 A-REIT relies on the divisor method wherein the market capitalization of the index portfolio is divided by a number to produce the index value. This algorithm is as follows:

$$\frac{Current\ Index\ Market\ Capitalisation}{Start\ of\ Day\ Index\ Market\ Capitalisation} * Previous\ Index\ Closing\ Value$$

This is the same algorithm that is used for the calculation of the S&P 500 contract and for the calculation of all of Standard and Poor's other indices.

Index calculations are based on stock prices taken from the primary market for each constituent stock. Real time index values are calculated and disseminated every thirty seconds whenever the primary exchange is open for trading through international vendors who subscribe to ASX data feeds. The official daily index close for both price and total return indices is based on the last traded price for each index constituent and is calculated after close of the primary market (4:00 p.m. Sydney time).

All indices are constructed to ensure an appropriate sectoral balance. While market coverage can vary with market conditions, the S&P/ASX 200 covers approximately 80% of the market capitalization of the Australian equity market (the **Market**) respectively. This high capitalization coverage ensures that the indices are highly correlated with, and thus reflective of, the Market. In addition, quarterly portfolio reviews coupled with transparent index construction rules ensure that the indices will always respond to changing market conditions.

Expiration day

For Index Options, expiration is usually the third Thursday of the contract month. However, ASX has the right to change this date should the need arise. All Index Options follow the quarterly cycle of March/June/September/December.

Index Options are usually listed for the next six months in the quarterly expiration cycle with 2 serial month contracts listed at all times.

Exercise Intervals (or Strike prices)

Exercise intervals (or strike prices) are expressed in points. ASX sets the exercise intervals for all options listed on ASX's options market. As with equity options, there is a range of exercise prices available for options with the same expiration day. New exercise prices are listed as the underlying index moves. Typically, the range of exercise prices includes one close to the current level of the underlying index with five strikes above and five strikes below.

Contract Size

Contract value is fixed at A$10 per index point. The dollar value of the contract is equal to the index level x the dollar value per index point. For example, for an index at 5700 points, the value of 1 contract would be 5700 x $10 = $57,000.

Premium

Index Options

The premium payable for an Index Option is the quoted premium multiplied by the index multiplier. For example, a quoted premium of 30 points, with an index multiplier of $10, represents a total premium cost of $300 per contract.

Margin

Index Options are margined in the same manner as Equity Options. See the discussion on margin requirements in Section 6.A.

7. TAXATION AND TRANSACTION COSTS

Before engaging in options transactions, U.S. entities should consult their own tax advisors with respect to Australian and U.S. federal, state and local tax considerations relevant to them. The following discussion does not purport to be exhaustive or applicable to particular circumstances.

U.S. Taxes

The following discussion is a general summary of possible United States federal income tax consequences to U.S. Holders (as defined below) of acquiring, holding and disposing of Options. This summary is based upon the Internal Revenue Code of 1986, as amended (the **Code**), final, temporary and proposed Treasury Regulations, administrative pronouncements of the U.S. Internal Revenue Service (the **IRS**) and judicial decisions, all in effect as of the date hereof, changes to which could apply on a retroactive basis and affect the tax consequences described herein. The rules governing the United States federal income tax consequences of Option transactions are complex and depend on the taxpayer's particular situation. This summary does not consider, among other things, (i) the federal income tax consequences relating to an Option that is part of a hedging transaction, (ii) the possible application of the 'straddle' rules of the Code, (iii) an Option that is part of a 'conversion transaction' within the meaning of Section 1258 of the Code, (iv) the federal income tax consequences of selling an Option in a 'short sale' within the meaning of Section 1233 of the Code or (v) the tax consequences to other special classes of U.S. Holders, such as dealers in securities, U.S. Holders in whose hands the Options or the stock underlying the Options would not be a capital asset, tax exempt U.S. Holders, or U.S. Holders whose functional currency is not the U.S. dollar. Any one of these factors might substantially alter the tax consequences described below. Prospective U.S. Holders of Options are urged to consult their own tax advisors concerning United States federal, state and local and other tax consequences, in light of their own particular circumstances regarding Options.

As used herein, the term **U.S. Holder** means a holder or writer of the Options, as the case may be, that is, for United States federal income tax purposes, (i) a citizen or resident of the United States, (ii) a corporation, partnership or other entity created or organized in or under the laws of the United States or of any political subdivision thereof, or (iii) an estate or trust the income of which is subject to United States federal income taxation regardless of its source.

Except upon receipt of stock pursuant to exercise of an Equity Option, a U.S. Holder may recognize capital gain or loss upon the sale, transfer, settlement or lapse of an Option in an amount equal to the difference between the amount realized from the sale, transfer, settlement or lapse (together with any premium received for writing the Option) and such U.S. Holder's basis in the Option. If the opening transaction is a purchase of an Option, the capital gain or loss upon closing the transaction may be treated as long-term or short-term capital gain or loss depending on the length of time that the Option has been held. If the opening transaction is a sale of an Option, the capital gain or loss upon closing the transaction should generally be treated as short term capital gain or loss regardless of how long the opening transaction remains open.

A U.S. Holder who receives stock pursuant to exercise of an Equity Option may not recognize gain or loss on such exercise but could be treated as having purchased such stock as of such exercise in exchange for the exercise price together with any premium paid for the Option or less any premium received for entering into the Option, as the case may be. Thus, the U.S. Holder's basis in the Option may be added to the U.S. Holder's basis in the acquired stock. A U.S. Holder generally may recognize gain or loss on subsequent sale or exchange of the stock equal to the difference between its basis in the stock and the amount realized on sale or exchange of the stock. Such gain or loss may be treated as long-term or short-term capital gain or loss depending on the length of time that the stock has been held.

Notwithstanding the foregoing, the tax consequences to U.S. Holders that hold Index Options may generally be different if the Index Options constitute 'Section 1256 contracts' and, as a result, the 'mark-to-market' rules of Section 1256 apply to such Options. The Index Options will constitute 'Section 1256 contracts' and therefore may be subject to the 'mark-to-market' rules as described below if (i) ASX constitutes a 'qualified board or exchange' within the meaning of Section 1256(g) of the Code and (ii) the S&P/ASX 50 Index and S&P/ASX 200 Index do not constitute a 'narrow-based security index' under section 3(a)(55) of the Exchange Act. ASX would be considered to be a 'qualified board or exchange' only upon the determination of the Secretary of the Treasury. As of the date of this document, no such determination is in effect and ASX does not presently intend to request a determination from the Secretary of the Treasury. Accordingly, the 'mark-to-market' rules of Section 1256 of the Code do not currently apply to the Options.

It is possible, however, that the Secretary of the Treasury could, in the future, determine that the ASX constitutes a 'qualified board or exchange.' In such a case, Index Options on an index that does not constitute a 'narrow-based security index' under Section 3(a)(55) of the Exchange Act, acquired after such a determination (and possibly such Index Options acquired prior to such determination) may be subject to the 'mark-to-market' rules of Section 1256 of the Code and a U.S. Holder of such unexercised Index Options may generally be required to treat the Option as if it were sold for its fair market value on the last business day of the taxable year during which the holder owned the Index Option and to take account of the resulting gain or loss as 60 percent long-term and 40 percent short-term capital gain or loss. Under these rules, any gain or loss realized by a U.S. Holder upon the sale, transfer, settlement or lapse of an applicable Index Option may be treated as 60 percent long-term and 40 percent short-term capital gain or loss.

The provisions of the Code governing transactions in foreign currency will apply with respect to the acquisition and disposition of Australian dollars in connection with purchasing and selling Options by U.S. Holders.

Australian taxes

U.S. resident investors engaging in options transactions should note the following comments in relation to the likely Australian tax consequences. The information is provided for the purposes of guidance only and should not be taken as constituting taxation advice to the investor. The Australian taxation implications may vary depending on the circumstances of each investor. Investors should seek their own independent legal or taxation advice.

Generally, U.S. residents are taxed in Australia only on their Australian sourced income. To the extent that a U.S. resident is considered to be carrying on business in Australia, and entering into options positions represents a part of that business, any profits on disposal of those positions will be assessable unless the Australia-USA double tax treaty excludes that amount. The Australian corporate income tax rate is currently 30%. Individual investors will be taxed at their respective marginal tax rates. Subject to the length of shareholdings and the percentage of shareholdings, Australian capital gains tax may also apply.

Transaction costs

The costs involved in trading and clearing an option include a bundled ASX and ASX Clear registration fee and brokerage fees. Brokerage is charged by Market Participants and varies. It can be:

1. a flat fee, charged on a per transaction basis;
2. on a percentage basis (i.e. a percentage of the gross value of the order); or
3. a combination of these two, such as a flat fee for orders up to a certain dollar value and then a percentage thereafter.

ASX Clear administers the bundled registration fee of A$0.13 + GST* per Equity Option contract. If an Equity Option is exercised or assigned, ASX Clear additionally charges an exercise fee of A$0.05 + GST per contract. In the case of Index Options ASX Clear charges A$0.35 + GST per contract for both the registration fee and the exercise fee.

*GST is the Australian Goods and Services Tax, an obligatory federal sales tax. Currently the tax is 10%.

8. PROTECTION OF ASSETS

Safeguard for customer's assets

ASX Clear Participants are required by the ASX Clear Operating Rules and the Corporations Act to maintain monies and securities deposited as customers' margin separately from their own monies and securities.

Protection for Participant on customer's default

If a customer defaults on its obligations under an options contract, the ASX Clear Participant may take any action, or refrain from taking action, which it considers reasonable in the circumstances in connection with the options contract and without limitation the ASX Clear Participant may close out the options contract, exercise the options contracts or exercise any other rights conferred on the ASX Clear Participant.

Protection in the case of ASX Clear Participants' Default

ASX Clear acts as central counterparty to each trade traded through the Trading Platform. Through novation, ASX Clear takes on the obligations of the buyer to every seller and the obligations of the seller to every buyer. The process of novation in relation to each trade results in counterparty risk being minimized for ASX Clear Participants operating in the ASX market.

If an ASX Clear Participant is in default, ASX Clear is responsible for settling outstanding derivatives obligations of the defaulting ASX Clear Participant. ASX Clear effectively stands in for the defaulting ASX Clear Participant by meeting the defaulting ASX Clear Participant's payment obligations for that day and for as long as open positions remain registered in the name of that ASX Clear Participant (i.e. ensuring that all non-defaulting ASX Clear Participants receive the funds they would have been entitled to if the default had not occurred). In managing a default, ASX Clear will make all reasonable efforts to transfer out the accounts of non-defaulting clients of the defaulting ASX Clear Participant but cannot guarantee that this will occur.

ASX Clear may suspend the defaulting ASX Clear Participant's admission and undertake a number of actions in order to mitigate any damage to ASX Clear, other ASX Clear Participants, the market and/or clients. For a full description of available actions, please refer to ASX Clear Rules Section 15 Default at:

www.asxgroup.com.au/media/PDFs/asx_clear_section_15.PDF

Clearing Fund Contributions

In addition, under ASX Clear Operating Rules, ASX Clear has the ability to seek contributions (**Contributions**) from ASX Clear Participants to support the financial risks of ASX Clear in relation to clearing. Contributions will be held by ASX Clear as its absolute legal and beneficial property. If an ASX Clear Participant has made a contribution and fails to meet any clearing obligation, ASX Clear may apply the contribution to discharge, or to compensate ASX Clear for the discharge of the clearing obligation. ASX Clear may also apply an ASX Clear Participant's contribution against the default of another ASX Clear Participant subject to a priority of the application of relevant assets.

National Guarantee Fund

The Securities Exchanges Guarantee Corporation (**SEGC**) administers the National Guarantee Fund (the **NGF**). SEGC is a subsidiary of ASX, but operates independently and in accordance with the Corporations Act.

Since 1987, the NGF has provided capital support for the ASX market by means of legislative heads of claim when a Market Participant fails to perform its obligations to another Market Participant. This protection was enjoyed directly by Market Participants' clients, and also by other Market Participants. When ASX first established a formal central counterparty for equities in 1994, the NGF legislative provisions were modified so that the NGF explicitly supported the central counterparty against ASX Market Participant and/or ASX Clear Participant default, as well as ASX Market Participants and ASX Clear Participants directly, and their clients.

As a result, options were specifically covered by the NGF in the following ways:

1. Client protection - If an exchange traded option is exercised the resulting purchase and sale of a security is covered by contract completion provisions. Further, if a client entrusts property to a participant in the course of dealing in exchange traded options the NGF provides compensation for the loss of that property if the participant becomes insolvent; and

2. Clearing support - The options market has netting arrangements for obligations between ASX Clear Participants and ASX Clear. If an ASX Clear Participant did not meet a net payment obligation to ASX Clear for any settlement day (in accordance with the netting arrangements and the net claims provisions of the legislation), ASX Clear was entitled to make a claim on SEGC. Payment by SEGC of valid claims by ASX Clear under this Subdivision would result in ASX Clear funds being replenished, so that other Participants in the options clearing system may be paid as required.

Until March 2005, the NGF fulfilled the two roles described above– clearing support and investor protection. However, this dual function arrangement was inconsistent with international practice and the RBA's Financial Stability Standards (which address, among other things, responsibility for clearing support).

ASX applied to the Minister under the Corporations Act for a direction that the NGF be split by a payment to ASX Clear. Under the Corporations Act, the Minister may direct that a payment be made from the NGF to a prescribed body, where that body has made adequate arrangements for clearing and settlement system support. The Parliamentary Secretary to the Treasurer directed SEGC to make a payment to ASX Clear on March 31, 2005; ASX Clear absorbed this payment in the form of a Restricted Capital Reserve (**the Restricted Capital Reserve**). The effect of this direction is that from March 31, 2005 onwards ASX Clear will be responsible for clearing support while the NGF continues to provide investor protection. The SEGC retains its existing fidelity and client protection responsibility, backed up by the residual NGF.

As noted above the Restricted Capital Reserve may be applied by ASX Clear to the default of a Participant. The funds are in ASX Clear's control and are to be used to cover ASX Clear's clearing obligations only. The amount transferred to ASX Clear was approximately $71.5 million. The Restricted Capital Reserve forms part of the capital of ASX Clear. The Restricted Capital Reserve is subject to constitutional restrictions and conditions imposed by the Australian government to prevent the funds being used by ASX Clear for any purpose other than the clearing support function. In effect, the funds continue to be used for the same purpose as they were before, to provide clearing support to the benefit of ASX Clear and all ASX Clear Participants.

ASXCC currently funds the difference between the Restricted Capital Reserve (A$71.5 million) and the capital that ASX Clear needs to cover its obligations as central counterparty (**the Risk Resource Requirement**, currently A$150 million). ASXCC's contribution is therefore approximately A$78.5 million. The amount of ASX's contribution may vary over time. ASX Group will also continue to support the day to day operations of ASX Clear (e.g. by the provision of staff and facilities).

Term Loan Facility Agreement

ASXCC has entered into a three year term loan facility agreement with a major Australian Bank. ASXCC has used a portion of the proceeds to make an inter-company subordinated loan to ASX Clear, in the amount of A$100 million. The loan facility is fully drawn and features a reduction of principal mechanism under which the outstanding principal amount of the loan from time to time may be reduced by the amount by which any Participant default loss of ASX Clear exceeds the prior ranking capital of ASX Clear.

Emergency Assessment

Under the ASX Clear Operating Rules, ASX Clear has an emergency assessment (**Emergency Assessment**) power in which ASX Clear may levy non-defaulting Participants up to a total defined amount per Participant default, which is currently capped at twice the Risk Resource Requirement. On current numbers this will be A$300 million per ASX Clear Participant default.

Emergency Assessments would be used to meet clearing losses only after one or more clearing losses exhausted the Risk Resource Requirement, any ASX Clear Participant Contributions and the term loan facility. On current numbers this means that a clearing loss would need to be at least A$250 million before an Emergency Assessment could be imposed.

Within the overall cap, each ASX Clear Participant's individual liability for a particular clearing loss will be capped at 10% of twice ASX Clear's Risk Resource Requirement (i.e. on current numbers, the maximum liability of individual ASX Clear Participants per clearing loss will be A$30 million - 10% of 2x A$150 million).

The actual liability of an ASX Clear Participant following a clearing loss will be calculated in the following manner. Each ASX Clear Participant (excluding the ASX Clear Participant whose default gives rise to the clearing loss) will be liable to pay their pro rata share of the overall Emergency Assessment. Shares will be calculated based on the daily average open market position of the ASX Clear Participants being assessed over the three month period ending immediately before a clearing loss occurs.

If an ASX Clear Participant defaulted in paying an assessment (or to the extent that a further assessment would take an ASX Clear Participant over such participant's cap), ASX Clear could impose a further assessment (equal to the unpaid amount of excess) on the remaining ASX Clear Participants on the same pro rata basis as before (again subject to an individual ASX Clear Participant's cap, and so on).

Depending on the circumstances, ASX Clear may call on the Emergency Assessment power as a source of liquidity funding. If this happened and final losses were less than A$250 million, ASX Clear would refund the Emergency Assessments to ASX Clear Participants.

Priority of Application of Clearing Assets

In the event of an ASX Clear Participant's default, ASX Clear Operating Rules provide for the priority of application of assets. The order of priority in which financial resources will be used in the event of a clearing loss will be as follows:

1. Tier 1: ASX CLEAR will use any Cover or other asset of the defaulting ASX Clear Participant available to discharge the obligations of the defaulting ASX Clear Participant. 'Cover' is defined as 'Cash Cover and Collateral' under the ASX Clear Operating Rules. 'Cash Cover' means the cash balance credited by ASX Clear to an ASX Clear Participant to satisfy its risk margin and other margin obligations as determined by ASX Clear. 'Collateral' means property, acceptable to ASX Clear from time to time, which is pledged, mortgaged, charged, or otherwise secured by any person (including a Client) in favor of ASX Clear in respect of some or all of the obligations of an ASX Clear Participant to ASX Clear, and may include bank guarantees or securities.
2. Tier 2: any Contribution of the defaulting ASX Clear Participant will be used.
3. Tier 3: the Restricted Capital Reserve amount will be used.
4. Tier 4: ASX Clear's liquid assets will be used. Tiers 3 and 4 will absorb loss up to a total amount which is currently set at A$150 million (see below).
5. Tier 5: ASX Clear's portion of the drawn down Term Loan Facility Agreement will be used. This is currently A$100 million.
6. Tier 6: any Contributions of non-defaulting ASX Clear Participants will be used.
7. Tier 7: ASX Clear will use Emergency Assessments received from ASX Clear Participants.
8. Tier 8: any other assets of ASX Clear will be called on.

In the event that there is more than one clearing loss on a particular day, this process would be repeated for each clearing loss. Under the ASX Clear Operating Rules ASX Clear may, in its discretion, apply the assets listed above in any order it considers appropriate to enable ASX Clear to meet its clearing obligations in a timely manner. If ASX Clear exercises its discretion, in this regard, it subsequently must make the adjustments it considers necessary to restore ASX Clear and the ASX Clear Participants to the position they would have been in had the assets been applied in the order set out above.

In addition to meeting any losses, ASX Clear will need to restore its capital back to the minimum amount it determines as necessary to allow it to continue its operations as a licensed central counterparty and remain in compliance with the RBA Financial Stability Standards.

9. DISCLAIMER

This document is not intended to be a complete discussion of the characteristics and risks of options transactions, but rather should serve to provide an overview of the Australian Equity Option and Index Option market. It was prepared by the ASX for distribution pursuant to the requirements of the SEC, and is only intended to meet this requirement.

This document should not be relied upon for investment advice. Further, nothing in this document should be construed as a recommendation to buy or sell any option or any other security. The examples herein are for illustrative purposes only. Investors considering investments in options issued by ASX should carefully discuss the risks and opportunities of such trading with their brokers.

While there are risks associated with the buying and selling of exchange traded options, there are other risks related to investing in options which are not discussed in depth in this document. These risks include, but are not limited to, risks related to the investment in the underlying interest itself, the condition of the economy, the infrastructure of the financial markets and policies of individual brokerage firms, etc.

Readers should be aware of the scope and limitations of this document set forth below:

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GLOSSARY

ADMS	means ASX Derivatives Margining System.
ASIC	means the Australian Securities and Investments Commission.
ASX Clear	means ASX Clear Pty Limited.
ASX Settlement	means ASX Settlement Pty Limited.
ASXCC	means ASX Clearing Corporation Limited.
ASXSC	means ASX Settlement Corporation Limited.
ASX Participants	means participants in the Australian Securities Exchange.
ASX or the **Exchange**	means ASX Limited.
Code	means the Internal Revenue Code of 1986.
Continuous Orders	refers to making market on a continuous basis only.
Corporations Act	the Corporations Act 2001 (Cth), as amended from time to time.
DvP	means delivery versus payment.
Eligible Broker-Dealers and Eligible Institutions	refers to entities that have had prior actual experience in the U.S. domestic options markets, and that can meet the certain qualifications under Rule 144A or Regulation S.
Equity Options	means options on individual securities that are listed and traded on ASX.
Exchange Act	refers to the Securities Exchange Act of 1934.
Index Options	means options based on the S&P/ASX 200 and S&P/ASX 200 A-REITs Index.
IRS	means the U.S. Internal Revenue Service.
Limit Order	refers to an order that specifies price.
Market Order	means an order for immediate execution.
Options	refers to Equity Options, Index Options.
Quote Requests	refers to making a market in response to quote requests only.
SEC	refers to the U.S. Securities and Exchange Commission.
Securities Act	refers to the Securities Act of 1933.
SEGC	means the Securities Exchanges Guarantee Corporation.
TMC	means Tailor Made Combinations.

U.S. Holder means a holder or writer of the Options, as the case may be, that is, for United States federal income tax purposes, (i) a citizen or resident of the United States, (ii) a corporation, partnership or other entity created or organized in or under the laws of the United States or of any political subdivision thereof, or (iii) an estate or trust the income of which is subject to United States federal income taxation regardless of its source.

APPENDIX 1 - NATIONAL HOLIDAYS IN AUSTRALIA – 2012 & 2013

Dates the ASX is closed in 2012

2 January	–	New Year's Day
26 January	–	Australia Day
6 April	–	Good Friday
9 April	–	Easter Monday
25 April	–	ANZAC Day
11 June	–	Queen's Birthday
25 December	–	Christmas Day
26 December	–	Boxing Day

Dates the ASX is closed in 2013

1 January	–	New Year's Day
28 January	–	Australia Day
29 March	–	Good Friday
1 April	–	Easter Monday
25 April	–	ANZAC Day
10 June	–	Queen's Birthday
25 December	–	Christmas Day
26 December	–	Boxing Day