

What are the key differences between options and warrants?

Options and Warrants are category names for two financial product groups traded on ASX. In both cases the value of the product is linked to the value of another financial product. For example, the price of a Telstra warrant is linked to the trading price of a Telstra share.

Some warrants are similar to the equivalent option. For example, Telstra call warrants may be economically similar to Telstra call options, with the key differences being outlined in the table below.

The major differences between options and warrants arise because of the very broad range of warrant products available compared to options. For example, a Telstra call option is different to a 10-year Telstra instalment or a Telstra endowment warrant.

When deciding whether an option or warrant suits your investment needs you should consider your financial objectives as well as what level of risk you want to assume. You should speak to an ASX Accredited Derivatives Adviser before investing in either product.

| DIFFERENTIATOR | WARRANTS | OPTIONS |
|---|--|--|
| Which trading system? | ASX Trade | ASX Trade |
| Which clearing and settlement system? | CHESS (the ASX share clearing and settlement system). | ASX Clear and CHESS (for payments) |
| Who issues them? | A warrant issuer - usually one of the international investment banks or domestic banks | ASX decides which options to make available for trading according to market demand |
| What are the Terms of Issue? | Variable depending on the issuer and type of product | Standardised and set by ASX |
| What types of products are available? | Warrant products cover a wide range from capital guaranteed investments to instalments to high risk/high return trading warrants | Equity calls and puts Index calls and puts Low Exercise Price Options (LEPOs) |
| What is their lifetime? | Between 3 months and 15 years | Spot (current) to 5 years (Equity) Spot (current) to 18 months (Index) |
| Who trades them? | Private clients and some institutions | Private clients and institutions |
| What about Market liquidity? | Under ASX Operating Rules, warrant issuers currently undertake to 'make markets' by providing at least a bid for the life of the product for a prescribed period. Refer to Warrants - Understanding trading and investment warrants | Under contractual arrangements with ASX, market makers must provide quote request and continuous markets for specified spreads and quantities for certain option series for certain percentages of time. Refer to Market Makers |
| Can I trade online? | Yes – in the same way as you trade shares online | Check the ASX website for brokers who offer online services |
| Can I short sell or write? | No | Yes |
| How many shares can each product be exercised into? | Depends on the conversion ratio decided by the issuer: i.e., the number of warrants to get 1 underlying asset | Each option contract is over 100 shares (unless adjusted for a corporate action) |
| Are specific client agreements with my stockbroker required before I trade? | Yes – you must sign a Warrant Client Agreement Form and read the Understanding Trading and Investment Warrants booklet | Yes – you must sign a Option Client Agreement Form and read the Understanding Options Trading Booklet |

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