

Morgans Financial Limited Target Market Determination

Exchange Traded Options, 9 September 2024

This document has been prepared to ensure Morgans Financial Limited (**Morgans**) comply with the Design and Distribution Obligations (**DDO**) set out under the Corporations Act 2001 (Cth) (**Corporations Act**) in respect of a Target Market Determination (**TMD**) for Exchange Traded Options (**ETOs**). This document does not purport to address all obligations on product issuers under the DDO regime.

Issuer	Morgans Financial Limited ABN 49 010 669 726 - AFSL 235410
Product	Morgans Exchange Traded Options (ETOs) are exchange-traded equity and index options that are traded on the ASX using a Morgans ETO account.
Date of TMD	September 2024
Next review due	30 September 2026
Overview of this document	This document is a target market determination for the purposes of section 994B of the <i>Corporations Act 2001</i> (Cth) (Corporations Act) in respect of ETOs issued by Morgans. This document is not a product disclosure statement (PDS) and does not consider any particular investor's objective, financial situation or needs. You should refer to our PDS on our website to ensure you fully understand the risk involved and consider seeking independent financial advice before deciding to trade ETOs.
Overview of ETOs	ETOs are options quoted on the ASX. The underlying product can be an individual financial product, such as a quoted share or other financial product, or an index. Exchange-traded equity options are options on quoted shares (or other securities) of a select group of stock exchange listed companies. Exchange-traded index options are options on a select group of stock exchange indices. There are three main reasons why retail clients may trade via ETOs: - to reduce risk by hedging against other exposures (e.g., acquiring an ETO over shares the retail client already holds), or to lock in a price to purchase or sell underlying investments; - to earn increased income by obtaining premium from selling options; or - to seek to make profits from trading. ETOs are subject to significant risks, including but not limited to: - Buyers of ETOs may lose their entire premium (i.e., the entire up-front amount invested) if the ETO is not in-the-money at the time of exercise. Depending on the strategy used, losses can be substantial; - Generally speaking, ETOs are not suitable for retail investors who are unable to withstand losses without material personal hardship. - ETOs are typically only suitable for investors who have sufficient experience and understanding of the product.

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	- ETOs are a leveraged instrument. Leverage can magnify losses as well as gains. In other words, a high degree of leverage involved in many ETOs can work against a buyer, multiplying their losses if the market moves against the buyer. - ETOs have a defined life span and expire on a specified date. Their time value falls as they approach their expiry date, and they are worth nothing after they expire (if unexercised). Accordingly, buyers of ETOs should actively manage their open positions, particularly as expiry dates approach. - Sellers of options and buyers of low exercise price options (LEPOs) are exposed to potential margin calls, which may require cash or other assets to be lodged at short notice; and - Sellers of uncovered ETOs are exposed to potential material risk, including material losses for sellers of uncovered put options and potentially unlimited losses for sellers of uncovered call options. It should also be noted that under the ASX Clear Operating Rules (Rules) (paragraph 5.3 of Schedule 5), a client wishing to trade in ETOs is required to acknowledge that: - they have read and understood the documents (if any) given to them under Rule 7.1.1(b) of the Rules; - dealing in derivatives incurs a risk of loss as well as a potential for profit; and - they have given consideration to their objectives, financial situation and needs and formed the opinion that dealing in derivatives is suitable for their purposes. For further details in relation to risks and potential for loss associated with ETOs, refer to our PDS.
Retail clients for whom ETOs are unsuitable	ETOs will generally not be suitable for retail clients outside the target market. Potential categories would include retail clients who: - Are novice or inexperienced investors; or - Have a conservative risk appetite; or - Are not able to affirm that they meet certain financial risk, financial capacity, and options positions monitoring requirements; or - Do not understand the risks of ETOs as applicable to their proposed trading including market movement and volatility, leverage (which can multiply profits as well as losses), expiry (limited life of options), exercise and assignment, margin calls, and financial loss; or - Cannot bear the consequences of potential losses without material impact on their standard of living. Retail clients whose open option positions are being closed out (whether on the instruction of the retail client, due to Morgans exercising its rights, by action of the ASX Group, or otherwise) are included in the target market, even if the retail client would not otherwise fall within the target market.
Target Market for ETOs (s994B(5)(b))	Given the diverse nature of ETOs and different strategies that may be associated with trading ETOs, Morgans consider that the target market for ETOs is a retail client that falls within one (or more) of the below categories, noting there may also be some overlap between categories: High Risk Tolerance Investors – retail clients seeking to make profit via trading in ETOs; Risk Mitigation Investors – retail clients seeking to hedge potential risks from other investments or exposures to, or to lock in a price to purchase or sell underlying investments; and Premium Generation Investors – retail clients seeking to generate income by selling ETOs fully covered by holdings of underlying assets.

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	Note it is not necessary for a client to fall within all three categories; it is sufficient for a retail client to fall within one of the above categories to be within the target market for ETOs, although if a retail client falls within only one category the ETO strategies that the retail client can trade may be limited. Retail clients in the target market must demonstrate that they understand and accept the risks associated with ETO trading.
Likely objectives, financial situation and needs of retail clients in the target market	High Risk Tolerance Investors are retail clients likely to have a higher risk appetite and who are seeking higher returns through riskier strategies and are prepared to suffer material losses (and able to withstand such losses). • <u>Likely objectives</u>: Use existing assets to support leverage in order to seek higher returns with corresponding higher risk. • <u>Likely financial situation</u>: Have a relatively high and regular income and/or substantial holdings of capital available for investment. Are able to withstand losses from trading without causing distress or material impact on living standards. Have available liquid assets to fund potential margin calls. Have a good understanding of ETOs and trading strategies. • <u>Likely needs</u>: Wish to use spare capital to make enhanced returns Risk Mitigation Investors are retail clients who are likely to be relatively risk averse and are looking to protect previous gains, lock in purchase or sale prices, or mitigate against potential future losses. • <u>Likely objectives</u>: Protect previous gains or mitigate against potential future losses and/or lower the cost of acquiring underlying assets. • <u>Likely financial situation</u>: Have existing investments or exposures which the retail client wishes to hedge. • <u>Likely needs</u>: Loss or profit protection. Premium Generation Investors are likely to be retail clients with a moderate risk appetite who are looking to increase their yield but prepared to have the ETOs exercised against them. • <u>Likely objectives</u>: Increase their income return. • <u>Likely financial situation</u>: Hold existing positions in underlying stocks. Require a regular income. Are able to address capital gains tax position if ETOs sold by the retail client are exercised against. • <u>Likely needs</u>: Increase income return.
Different ETO strategies	We expect High Risk Tolerance Investors will be likely to engage in the following strategies: • Buying call options and put options (noting that these financial products, of themselves, may not be particularly high risk depending upon the circumstances) (Level 1 ETOs); • Selling covered call (and buy/write strategy) options (Level 1 ETOs); • Selling uncovered options (both put options and call options) (Level 2 ETOs); and • Trading in LEPOs (Level 2 ETOs). We expect Risk Mitigation Investors will be likely to engage in the following strategies: • Buying put options (Level 1 ETOs). We expect Premium Generation Investors will be likely to engage in the following strategies:

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	- Selling covered call (and buy/write strategy) options (Level 1 ETOs); - Selling put options (Level 2 ETOs).
Explanation of why ETOs are likely to be consistent with the likely objectives, financial situation and needs of the target market (s994B(8))	Morgans expect that Level 1 & 2 ETO strategies and LEPOs will likely be consistent with the likely objectives, financial situation and needs of High Risk Tolerance Investors because these products offer the potential for enhanced returns, and this class of retail client should be able to bear any potential losses without material hardship. Morgans expect that Level 1 ETO strategies will likely be consistent with the likely objectives, financial situation and needs of Risk Mitigation Investors because these products offer the ability to protect or lock-in any previous profits or forthcoming profits from exposure to an underlying investment and/or protect against future losses. Morgans expect that Level 1 & 2 ETO strategies will likely be consistent with the likely objectives, financial situation and needs of Premium Generation Investors because these products offer the potential for increased income, and this class of retail client should be able to bear any consequences of their ETOs being exercised without material hardship.
Distribution Conditions (s994B(5)(c))	Any distribution of ETOs by Morgans or financial advisers authorised by Morgans directly to retail clients will be in accordance with procedures Morgans determine are reasonably likely to ensure that ETOs are only issued to retail clients who are reasonably likely to be within the target market. Morgans ETOs are only available through an appropriately accredited Morgans adviser. Distribution conditions include: - All retail, experienced and sophisticated investors are required to have completed the Morgans 'Understanding Options Questionnaire' to demonstrate their understanding of Level 1 & 2 ETO strategies. - Where accounts are operated by a third party, both the underlying client and the third party must complete the Morgans 'Understanding Options Questionnaire'. - All Morgans advisers must have explained to the retail client in detail the contents of the ASX 'Understanding Options' booklet, the Morgans Exchange Traded Options Product Disclosure Statement (PDS) and Client Agreement Terms. - Sold puts are not permitted where a client is utilising a margin lending facility, irrespective of whether the margin lender themselves permits this. - All clients (retail, experienced or sophisticated) must be CHESS sponsored with a linked CMA. - For Self-Managed Super Funds, when a client wishes to trade options, they are required to supply an excerpt of the Trust Deed indicating options are permissible as an investment type, as well as a copy of the investment strategy. If selling positions, a Derivatives Risk Statement is required, which needs to be consistent with the fund's investment strategy. - For superannuation funds, options trading is restricted to: - Covered calls and buy-writes (stock covered) - Sold puts (fully covered by cash held in super environment) - Buying calls for investment purposes - Buying puts for protection over existing holdings - All new option accounts and/or reactivations of an options account are to be vetted by the Morgans Derivatives Risk Committee for approval. No account will be opened or reactivated until approval is received. - Morgans advisers must be satisfied that utilising options is a suitable investment strategy for each retail client's investment requirements with regard to the investor types and associated strategies outlined in this TMD.

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Review Triggers (s994B(5)(d))	The review triggers that may suggest that the TMD is no longer appropriate, such that a review of the TMD should be undertaken, include: • Morgans become aware of a significant issuance of ETOs to retail clients outside the target market. • Material changes to the ETO product construct by ASX group such that key attributes of ETOs are no longer consistent with the likely objectives, financial situation and needs of retail clients in the target market. • Material changes to law or regulation affecting ETOs. • Morgans become aware of a significant volume of complaints (more than 5 complaints per quarter in relation to ETOs) from retail clients trading ETOS, where the substance of the complaints or general feedback relate to ETOs. • Morgans becomes aware of retail client outcomes which are significantly inconsistent with the intended product performance, including the following: - A material number of retail clients who are not meeting trade settlement and/or margin requirements; and - A material number of retail clients in financial hardship arrangements. • A material incident or significant number of incidents identifying potential breaches of Morgans' legal or regulatory obligations in relation to the product. • Morgans becomes aware of any other event or circumstance that Morgans views would materially change a factor considered in making this TMD for ETOs.
Review Periods (s994B(5)(e), (f))	This TMD must be reviewed at least every 2 years, and more frequently if a review trigger occurs. Reviews of the TMD must be complete by 5 October on a 2 yearly basis, or more frequently should a trigger event occur.
Distributor Reporting Requirements (s994B(5)(g), (h))	Not applicable as Morgans is the only distributor of ETOs.

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