September 2018

Charles Schwab Australia Pty Limited Exchange Traded Options

Part 1—Product Disclosure Statement

Part 2—Schedule of Fees and Costs

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Definitions

- **Clearing house (or clearer)**—An agency associated with an exchange, which settles stock or derivative trades and regulates delivery.
- **Combination order**—A trading position involving out-of-the-money puts and calls on a one-to-one basis. The puts and calls have different strike prices, but the same expiration and underlying stock. A long combination is when both options are owned, and a short combination is when both options are written. Example: A long combination might be buying one XYZ May 60 call and one XYZ May 55 put.
- **Covered calls/buy writes**—An option strategy in which a call option is written against an equivalent amount of long stock. Example: Writing two XYZ May 60 calls while owning 200 shares or more of XYZ stock. A buy write is a covered call where the call option is written simultaneously with the long stock position entry.
- **Derivative**—A financial instrument whose characteristics and value depend upon the characteristics and value of an underlying instrument, typically a commodity, bond, equity, or currency. Examples of derivatives include futures and options.
- **European style exercise options**—A type of option that allows the holder to exercise only on the expiry date.
- **Exchange**—Any organization, association, or group that provides or maintains a marketplace where securities, options, futures, or commodities can be traded, or the marketplace itself.
- **Exchange traded option**—An option that is bought and sold on an exchange.
- **Forward contract**—An agreement between two parties to buy or sell an asset (which can be of any kind) at an agreed-upon future point in time. Therefore, the trade date and delivery date are separated.
- **Low exercise price option (LEPO)**—European style exercise options traded over an options exchange, with a relatively low strike price. Since the strike price is so low, the LEPO's owner is extremely likely to exercise it, and it is roughly equivalent to a forward contract with a low price.
- **Market makers**—An exchange member on the trading floor who buys and sells options for his or her own account and who has the responsibility of making bids and offers and maintaining a fair and orderly market.
- **Option**—A contract between two parties, giving the taker (buyer) the right, but not the obligation, to buy (for a call option) or sell (for a put option) a specific amount of an underlying asset (for example, a given stock, commodity, currency, index, or debt) at a specified price (the strike price) during a specified period of time.
- **Pay-off diagram**—A chart of the profits and losses for a particular options strategy prepared in advance of the execution of the strategy. The diagram is a plot of expected profit or loss against the price of the underlying security.
- **Penny stocks**—A stock which sells for less than one dollar per share (or in some cases, less than five dollars per share). Most penny stocks have only a few million dollars in net tangible assets and have a short operating history. Penny stocks are almost always small-cap stocks, but the reverse isn't necessarily true.
- **Spreads**—The purchase of one option and the simultaneous sale of a related option, such as two options of the same class but with different strike prices and/or expiration dates.
- **Straddles**—The purchase or sale of an equal number of puts and calls, with the same strike price and expiration dates. A straddle provides the opportunity to profit from a prediction about the future volatility of the market. Long straddles are used to profit from high volatility. Long straddles can be effective when an investor is confident that a stock price will change dramatically, but cannot predict the direction of the change. Short straddles represent the opposite prediction—that a stock price will not change.
- **Terms and conditions**—The specific details of the Charles Schwab & Co. ("CS&Co.") user/customer agreement that must be entered into to enable a client to trade with CS&Co.
- **Trading account**—An account held with a stockbroker that enables a client of that stockbroker to accept and make payments in the course of entering and exiting various trades.
- **Trading statement**—A list detailing transactions undertaken through a client's trading account over a period of time.
- **Volatility**—A measure of the amount of fluctuation in the price of an underlying security.

Part 1—Product Disclosure Statement

Purpose of this product disclosure statement

This Product Disclosure Statement (PDS) has been prepared by Charles Schwab Australia Pty Limited ("CSAU," "us," "we"). This PDS is designed to assist an investor ("you," "your") to decide whether the ETO products described in this PDS are appropriate for your needs. It outlines important information you should consider before investing in ETOs, including:

Significant characteristics
Benefits
Risks
Costs
Our fees

This PDS is an important document and we recommend that should you have any questions arising from it, you contact us prior to entering into any transactions with us.

How to contact us

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The information contained in this PDS is general information only; it does not take into account the personal objectives, financial situation, or needs of any individual. Before trading in the ETOs referred to in this PDS, you should read this PDS and be satisfied that such trading is suitable for you after consideration of your circumstances. We recommend that you consult your investment advisor or obtain other independent advice before trading in ETOs.

Updating of information

The information contained in this PDS may be updated from time to time when the updated information is not considered adverse from an investor's point of view. CSAU may provide this updated information on its website, www.schwab.com.au. A printed copy of the updated information can be obtained by contacting us. CSAU may be required to issue a supplementary PDS as a result of certain changes.

PDS in two parts

This PDS is in two parts. Part 1 contains all information other than the Schedule of fees and costs, which is contained in Part 2.

What products does this PDS cover?

This is a PDS for ETOs traded on certain United States options exchanges. It deals with exchange traded equity options and index options but not low exercise price options. Exchange traded equity options are options over quoted shares (or other securities) of a range of different companies listed on the U.S. exchanges mentioned above. Exchange traded index options are options over an index such as the Dow Jones Industrial Average Index. A list of companies and indices over which ETOs are traded can be found on the options exchanges websites.

Introduction to ETOs

Options are a type of derivative product. The price of the option is "derived" from the price of the underlying share or index. This PDS provides an overview of the operation of options trading; however, for more detailed information on the types of options, contract sizes, risks, and how trading in these options operates, you must read and understand the "Characteristics and Risks of Standardized Options," which is published by the Options Clearing Corporation ("OCC") and is available at https://www.theocc.com/about/publications/character-risks.jsp.

ETOs are versatile financial products that can enable investors to:

- Manage risk by hedging against price movements in their underlying share portfolio.
- Increase the income earned from their portfolio.
- Profit from speculation.
- Benefit from the leverage provided by options trading (however, with greater leverage generally comes more risk).

The use of ETOs within an investor's overall investment strategy can provide great flexibility to take advantage of rising, falling, and sideways markets. However, both the purchase and sale of ETOs involve risks, which are discussed in detail below.

Specific concepts which should be practically understood before engaging in an options strategy are:

- The effect time has on any one position/strategy
- How volatility changes, both up and down, may change your pay-off diagram for a position
- How to calculate margins and worst-case scenarios for any position
- The likelihood of early exercise and the most probable timing of such an event
- The effect of dividends and capital reconstructions on an options position
- The liquidity of an options series, the role of market makers, and the effect these may have on your ability to exit a position

When buying an ETO, the initial outlay of capital may be small relative to the total contract value, such that transactions are "leveraged" or "geared." You should understand the nature and extent of your rights, obligations and the risks associated with trading ETOs when entering into transactions.

When selling an ETO, the initial income may seem attractive, but the downside may be unlimited. Risk minimization strategies should be employed to mitigate losses when a position does not move in a favorable manner.

What you must do before you can trade ETOs with us

Prior to trading ETOs, you are required to do the following:

- Read and understand the U.S. "Characteristics and Risks of Standardized Options" explanatory booklet
- Read this PDS, which explains our services and the types of ETO products that we can arrange to issue to you
- Open a trading account with CS&Co. by completing the Account Opening Form

Importantly, while this PDS provides an overview of ETOs, including information about their key features, risks, and benefits, you must inform yourself—and where necessary seek advice—about the specific features, risks, and benefits of the ETOs that you intend to trade, as well as the relevant exchange rules.

Key features of ETOs

ETOs may be American or European style exercise. Most options are American style, which means they are tradeable and can be exercised at any time prior to the expiry day. European options, which include index options, can only be exercised on the expiry day.

An exchange traded equity option is a contract between two parties which gives the buyer (the taker) the right, but not the obligation, to buy or sell the shares underlying the option at a specified price (exercise price) on or before a predetermined date. An exchange traded index option is a contract between two parties which gives the buyer (the taker) the right, but not the obligation, to require cash settlement for the value of the option position over a specified price (exercise price) on a predetermined date.

To acquire either of these rights, the taker pays a premium (price of the option) to the writer (seller) of the contract. The premium is not a standardized feature of the ETO contract and is established between the taker and writer at the time of the trade. The taker will always pay the writer the premium to enter into the option contract. The writer receives and keeps the premium but has the obligation to buy from or deliver to the taker the underlying shares/cash settle the index option position at the exercise price if the taker exercises the option.

ETO sellers are referred to as "writers" because they underwrite (or willingly accept) the obligation to deliver or accept the shares/cash equivalent delivery obligation of the option. Similarly, buyers are referred to as "takers" of an ETO, as they take up the right to buy or sell a parcel of shares/cash equivalent delivery obligation of the option. Every ETO contract has both a taker and a writer.

There are two types of ETOs, namely call options and put options. Call options give the taker the right, but not the obligation, to buy a standard quantity of underlying shares at a predetermined price on or before a predetermined date. If the taker exercises the right to buy, the seller (writer) is required to sell the standard quantity of shares at the predetermined exercise price. Put options give the taker the right, but not the obligation, to sell a standard quantity of underlying shares at a predetermined price on or before a predetermined date. If the taker exercises the right to sell, the seller (writer) is required to buy the standard quantity of shares at the predetermined exercise price.

All option positions consist of one or more of the following: a bought call, a sold call, a bought put, or a sold put. A long (or bought) option position is created by the purchase of a call or put. A short (or sold) position is created by the sale of a call or put. By combining two or more of these basic positions, an investor can create a trading strategy that meets a range of investment objectives, including the protection of an existing portfolio of shares.

Deliverable or cash settled

ETOs are either deliverable or cash settled. Most exchange traded equity options are deliverable—that is, with physical delivery of the underlying security—while index options are cash settled. Cash settlement occurs in accordance with the rules of the clearing house against the Opening Index Price Calculation (OPIC), as calculated on the expiry date.

Standardized contracts

ETOs are created by the exchange on which the underlying equity or index is listed. The relevant exchange determines the key contract specifications for each series of ETOs listed, including:

- The underlying security or underlying index.
- The number of shares represented by the option contract; in the U.S., one option contract usually represents 100 underlying shares.
- The exercise price (or strike price), being the specified price at which the taker (buyer) of an equity option can buy or sell the underlying shares. The Exchanges set the range of exercise prices at specific intervals according to the value of the underlying shares. It is important to note that the exercise price of an equity option may change during the life of an option if the underlying share is subject to a bonus or rights issue or other form of capital reconstruction. The number of underlying shares may also be subject to an adjustment.
- The expiry date—ETOs have a limited predetermined life span and generally follow a three-month cycle. For example, a stock may have ETOs that expire in March, another series that expires in June, another

in September, and a final one in December. For details of expiry dates for a particular stock, please refer to the CSAU website.

For more information on the contracts traded on the U.S. exchanges, please refer to the exchange websites:

Chicago Board Options Exchange	www.cboe.com
Boston Options Exchange	www.boxoptions.com
Nasdaq	www.nasdaq.com
NYSE	www.nyse.com
MIAX Options	www.miaxoptions.com

Adjustments

The relevant exchange may, in accordance with its operating rules, make an adjustment to one or more of the option specifications if the listed entity over which the option relates announces a corporate event that will result in some form of capital reconstruction of the underlying security. If the exchange does make an adjustment, it will endeavor to preserve the open positions of takers and writers at the time of the adjustment as well as possible.

In the U.S., the determination of whether to adjust outstanding U.S. options in response to a particular event, and what the adjustment should be, is made by a majority vote of an Adjustment Panel. The panel consists of two representatives of the U.S. Options Market on which the series is traded and one representative of the Options Clearing Corporation (OCC), the U.S. options markets' clearing agent. Every determination made by an Adjustment Panel is at the panel's discretion and is binding on all investors. As a general rule, adjustments are not made for tender offers or exchange offers or to reflect a change in the capital structure of the issuer, in which all of the underlying securities outstanding in the hands of the public (other than dissenter's shares) are not changed into another security or cash.

Premium

The premium (price of the option) is not a standardized feature. It is determined by market forces and is negotiated between the buyer and seller of the ETO through the market. The premium for an equity option is quoted on a cents-per-share basis so that the dollar value is calculated by multiplying the premium amount by the number of underlying shares (usually either 100 or 1,000). Index option premiums are quoted in points, where the full premium payable is calculated as the premium in points multiplied by the index multiplier (e.g., $10 per point). The option premium will fluctuate during the option's life depending on a range of factors, including the exercise price, the price of the underlying securities or the level of the index, the volatility of the underlying securities or the underlying index, the time remaining to the expiry date, interest rates, dividends, and general risks applicable to markets. U.S. ETOs are quoted in U.S. dollars.

Most option pricing involves the use of a mathematical formula which includes calculating the intrinsic and time value of the particular option. You should refer to the "Options Nomenclature" section of "Characteristics and Risks of Standardized Options" for more information on the fundamentals of pricing options. The Chicago Board Options Exchange Incorporated (CBOE) provides a pricing calculator at www.cboe.com/trading-tools/calculators.

No dividends or entitlements

ETOs do not entitle investors to dividends or other entitlements paid by the issuer of the underlying securities, unless the investor exercises the option to become the holder of the underlying securities at or before the relevant date for dividend or entitlement purposes.

Execution of your ETO orders

You may place ETO orders electronically by logging on to our website, www.schwab.com.au. Orders will be subject to vetting according to the appropriate exchange's rules and will be placed into the relevant market as received.

Opening an option position

The establishment of a contract is referred to as opening a position.

Once the taker of an ETO has an open position, they can do one of the following:

1. The taker can exercise the option.
2. The taker can hold the option to expiry and allow it to lapse.
3. The taker can close out their position by writing (selling) an option in the same series as originally taken and instructing their broker to close out the earlier open position.

The writer of an ETO has two alternatives:

1. Let the option go to expiry and risk being exercised against (if it is not exercised against, it will expire without any further obligation or liability on the writer).
2. Close out the option by taking (buying) an option in the same series as originally written (provided it has not been exercised against).

Closing out of option contracts

An ETO position may be closed out by placing an order equal and opposite in effect to the original order—this effectively cancels out the open position. An investor would close out an option contract:

- When there is a risk of unwanted early exercise (except for an index option, as they can only be exercised on expiry day)
- To take a profit
- To limit a loss

It is important that you advise CS&Co. if you are seeking to close out an existing position when placing an order. Closing out can be achieved without reference to the original party to the trade because of the process of novation. Under this process, the relevant clearer is able to substitute a new buyer as the contract party when an existing buyer sells to close their position. The process of novation is discussed in more detail below in the "Trading and clearing options" section.

Expiry

ETOs have a limited life span, and every option within the same series which has not already been exercised will expire on the expiry day. The expiry day is a standard day set by the relevant exchange. Expiry for U.S. options varies, and you should refer to our website for details with respect to expiry for U.S. options.

Exercise

Option takers make the decision to exercise the option contract. This means that an equity option writer may be exercised against at any time prior to expiry. The relevant clearing house will randomly allocate a writer for every exercised, taken position. This means that if the taker wants to exercise the options and either buy or sell (depending on whether it is a call or a put) at the predetermined price, then a writer of that option is randomly allocated the option exercised against them. The writer must then sell the shares at a predetermined price for a call or buy the shares at the predetermined price for a put. The taker of an option will generally only exercise for a profit, and therefore the exercise may result in a loss to the writer of the option, depending on the writer's initial costs. Once a writer has been allocated, the writer loses the opportunity to close their position and must effect the delivery or cash settlement obligations for the particular equity option contract.

The latest that CS&Co. will accept an exercise instruction for U.S. options to be exercised that day is 4:00 p.m. ET for index options and 5:00 p.m. ET for equity options. We cannot guarantee, however, that instructions received at or near this latest time will actually be acted on, due to unforeseen delays in processing (including computer system or telecommunications delays), and thus we strongly recommend that such instructions be given early.

Automatic exercise

All expiring equity options closing in-the-money at $0.01 or more will be eligible for automatic exercise per the contract terms of standardized options issued by the OCC. Index options will be exercised automatically if they are in-the-money by any amount. You may be required to request exercise of valuable options. You should note that long equity options that are in-the-money less than $0.05 or out-of-the money are not automatically exercised. These options may be exercised, but you must specifically request exercise of these options by 4:30 p.m. ET on the last day of trading before expiration.

Settlement

Payment for and the delivery of underlying securities on exercise of an open ETO contract occurs in the U.S. on T+2, where T is the date the trade occurred. For cash settled index options, a cash settlement amount, calculated with regard to the opening price index calculation on expiry day, is paid to exercising takers on the day following the expiry date. The level used for settling index options is determined by a special formula. If you intend to invest in index options, you should take the time to understand these arrangements. For more information on the settlement of index options, see the "Features of Index Options" section in "Characteristics and Risks of Standardized Options." CS&Co. requires that you have sufficient funds in your account for any shortfalls for all cash positions which arise from premiums, interest, and other cash financial transactions.

Benefits of trading options

ETOs have a number of advantages that include:

- Risk management that allows investors to hedge (protect) their share portfolio from a drop in value. Put options allow investors holding shares to hedge against a fall in the share price.
- Shareholders can earn income by writing call options over shares they already hold. As a writer of options, the investor will receive the premium amount up front. The risk is that the writer may be exercised against and be required to deliver their shares to the taker at the exercise price. By taking a call option, the purchase price for the underlying shares is locked in. This gives the call option holder time to decide whether or not to exercise the option and buy the shares. The holder has until the expiry date to make their decision. Likewise the taker of a put option has time to decide whether or not to sell the shares.
- ETOs benefit from standardization and registration with a clearing and settlement facility which reduces counterparty default risk. This process provides the benefit that the client's position can be closed out without reference to the original counterparty, and the client's risk to that counterparty is transferred to the options clearing house.
- Speculation—the flexibility of entering and exiting the market prior to expiry permits an investor to take a view on market movements and trade accordingly. In addition, the variety of option combinations allows investors to develop strategies regardless of the direction of the market.
- Options do not require a rising market to make money; rather, investors can profit from both rising and falling markets depending on the strategy they have employed. Strategies may be complex and will have different levels of risk.
- The initial outlay for an options contract is less than investing directly in the underlying shares. Trading in options can allow investors to benefit from a change in the price of the share without having to pay the full price of the share. An investor can therefore purchase an option (representing a larger number of underlying shares) for less outlay and still benefit from a price movement in the underlying shares. The ability to make a higher return for a smaller initial outlay is called leverage. Investors need to understand, however, that leverage can also produce increased risks.
- Given the lower initial outlay attaching to options, investors can diversify their portfolios and gain a broad market exposure over a range of securities or the index itself.

Risks of trading options

The risk of loss in trading in ETOs can be substantial. It is important that you carefully consider whether trading ETOs is appropriate for you. You should only trade ETOs if you understand the nature of the products and the extent of your exposure to risks. The risks attached to investing in ETOs will vary in degree depending on the option traded. This PDS does not cover every aspect of risk associated with ETOs. For further information concerning risks associated with ETO trading, please refer to the section of "Characteristics and Risks of Standardized Options" entitled "Principal Risks of Options Positions."

ETOs are not suitable for all retail investors. For example, investors who have a low risk tolerance should not enter into ETO trades, which have the potential for unlimited losses. When deciding whether or not you should trade ETO contracts, you should be aware of the following matters relating to risk:

- The high level of leverage that is obtainable in trading ETOs (due to the low level of initial capital outlay) can work against the investor as well as for the investor. Depending on the market movement, the use of leverage may lead to large losses as well as large gains.
- ETOs have a limited life span; their value erodes as the option reaches its expiry date. It is therefore important to ensure that the option selected meets the investor's investment objectives.
- ETOs are subject to movements in the underlying market. Options may fall in price or become worthless at or before expiry.
- ETOs can be subject to relatively large, rapid price movements. This price variation, or volatility, can make entering or exiting a position more difficult than would otherwise be experienced with the underlying security.
- The maximum loss in taking (buying) an ETO is the amount of premium paid. If the option expires worthless, the taker will lose the total value paid for the option (the premium) plus transaction costs.
- While writers (sellers) of ETOs earn premium income, they may also incur unlimited losses if the market moves against the option position. The premium received by the writer is a fixed amount; however, the writer may incur losses greater than that amount. For example, the writer of a call option has increased risk when the market rises and the writer does not own the underlying shares. If the option is exercised, the writer of the option is forced to buy the underlying shares at the current (higher) market price in order to deliver them to the taker at the exercise price. Similarly, when the market falls, the writer of a put option that is exercised is forced to buy the underlying shares from the taker at a price above the current market price.
- Writers of options could sustain a total loss of margin funds deposited with us. In addition, the writer may be obligated to deposit additional margin funds (which may be substantial) to maintain the option position or upon settlement of the contract. Margining is discussed below.
- Under certain conditions, the investor could face liquidity risk that could make it difficult or impossible to close out a position. For example, this can happen when there is a significant change in price over a short time period—if you want to close your position, there may not be sufficient buying support to allow you to sell out of your position.
- The U.S. exchanges and their respective clearing houses have discretionary powers in relation to the market. They have the power to suspend market operation or lift market suspension in options while the underlying securities are in trading halt. If circumstances are appropriate they may also restrict exercise, terminate an option position or substitute another underlying security (or securities), impose position limits or exercise limits or terminate contracts—all to ensure fair and orderly markets are maintained as far as practicable. These actions can affect an investor's option positions.
- The placing of risk minimization orders may not always limit an investor's losses to the amounts that are expected. Market conditions may make it impossible for CS&Co. to execute the risk minimization orders. Strategies using combinations such as spreads or straddles may be as risky as taking a simple long or short position.

- Trades effected may be subject to dispute. When a trade is subject to a dispute, the relevant exchange has powers, in accordance with its rules, to request that we amend or cancel a trade, which will in turn result in the contract with the client being amended or cancelled.
- Trades effected with CS&Co. are traded on an electronic trading platform. As with all such electronic platforms and systems, this platform is subject to failure or temporary disruption. If the system fails or is interrupted, CS&Co. will have difficulties in executing all or part of your order according to your instructions. An investor's ability to recover certain losses in these circumstances will be limited given the limits of liability imposed by U.S. exchanges and their relevant clearing houses.
- Orders placed with CS&Co. are subject to regulatory review with respect to rules determined by the exchanges. CS&Co. may amend or cancel an order, as required, if the order that has been placed fails this review. For more information with respect to CS&Co.'s obligations and their impact on your orders, please refer to the CS&Co. account Terms and conditions.

Foreign currency risk

An additional risk associated with trading in U.S. options is foreign currency risk. U.S. options are denominated in U.S. dollars, not Australian dollars. Therefore, there are risks associated with the exchange rates applicable to positions held in U.S. dollars moving adversely against the Australian dollar. If the value of the Australian dollar rises, the value of any U.S. balances will correspondingly fall, and the reverse applies should the Australian dollar fall in value.

Other foreign transaction risks

In addition to the currency risk associated with trading on foreign exchanges, the following also apply:

- Dealings on foreign exchanges are subject to foreign laws.
- Australian regulators have no jurisdiction over the operations of the foreign market.
- Protections available under the Corporations Act of 2001 will not be available.
- Settlement procedures may be different than those in Australia.

Costs and amounts payable that arise from ETO trading

Costs

Part 2 of this PDS contains information on the commissions, brokerage fees and other fees attaching to the ETOs.

Margins

Margins are generally a feature of all exchange traded derivative products and are designed to protect the financial security of the market. A margin is the amount of cash required to be deposited by an option writer as collateral for the writer's obligation to buy or sell the underlying interest or, in the case of index options, to pay the cash settlement amount if assigned an exercise. In the U.S., minimum margin requirements are imposed by the Board of Governors of the Federal Reserve, the options market, and other self-regulatory bodies.

Margins are calculated to cover the risk of financial loss on an options contract due to an adverse market movement. This means that if the price of your options moves against you, you will be asked to pay a margin which reflects that adverse movement. More margin may be called from you, compared to the amount that it is obligated to be paid according to the respective exchange rules. This is a risk management tool. The amount which may be called from you is unlimited. If the amount called is not provided in accordance with the call, your trading position with CS&Co. can be closed, and if any shortfall exists, CS&Co. will be entitled to recover this amount from you. Margin amounts may not be capped since for some positions, risk is unlimited.

Margin must be paid in cash by you into your trading account within 24 hours of your being advised of the margin call. Any interest levied on late settlement and margin payments is due and receivable at the time the amount is levied and certainly within one business day of a demand being made.

U.S. options margin requirements

To cover an option writer's obligation under a contract, the option writer is obligated to lodge collateral either in cash or securities with CS&Co.

As mentioned above, the minimum margin requirement is calculated by the Board of Governors of the Federal Reserve, the options market, and other self-regulatory bodies and may change over time for a particular contract.

For details in relation to U.S. options trading margin requirements, please refer to the Charles Schwab & Co., Inc. Product Disclosure Statement: Margin Lending Facility.

Other significant characteristics of ETOs

Trading and clearing options

ETOs are traded via the CS&Co. trading platform through the relevant exchanges and are cleared by a U.S. clearing house. The clearing houses stand between the buying and selling brokers and guarantee the performance to each of them. This process is known as "novation." Importantly, the clearing house does not have an obligation to you, the underlying client.

Client trust accounts and collateral

In order for CS&Co. to trade an ETO contract for you, CS&Co. requires you to provide CS&Co. with money or collateral to enable CS&Co. to manage the risks associated with its dealings for you in ETOs. Client money and collateral paid or given by you in connection with our dealing in ETOs must be held by us in trust in accordance with the exchange rules.

Significant taxation implications

It is important to note that your tax position when trading ETOs will depend on your individual circumstances, and you should consult your own taxation advisor before making any decisions to trade in ETOs. The taxation consequences of trading in ETOs are complex and will depend on your individual circumstances. It is therefore important that you ascertain whether you are a trader, a speculator, or a hedger, as the tax treatments for each may differ. We are not taxation advisors and recommend that you discuss any taxation issues with your tax advisor before entering or disposing of an ETO.

How do I place an order or change my personal details?

You can provide your transaction instructions to us via our website. The Terms and conditions governing the operation of your account are maintained on our website.

If you need additional information about our services, please do not hesitate to contact us at:

Unit 5, 4 Skyline Place
Frenchs Forest NSW 2086
Telephone: 1300 781 132
Fax: (+61) 2 9247 7379
www.schwab.com.au

Privacy

We are committed to addressing the privacy concerns of our clients. This has led us to develop a privacy policy to inform clients about how we endeavor to keep their information secure and in what manner we use their personal information.

We are bound by the Australian Privacy Principles that form part of the Privacy Act, 1988. These principles determine the ways in which we must treat personal information. A copy of our privacy policy is available on our website. If you would like further information regarding our privacy policy, please contact us by email at Compliance.Australia@Schwab.com or write to us at the address shown above.

Complaints and suggestions

We have procedures in place to ensure that complaints are fully considered and properly dealt with. If you have a difficulty or are not satisfied with our services, you are entitled to complain. Please take the following steps to make a complaint or suggestion:

1. If at the first point of contact your problem is not resolved to your satisfaction, please contact our Customer Service Manager:

   Post: Charles Schwab Australia Pty Limited
   Unit 5, 4 Skyline Place
   Frenchs Forest NSW 2086
   Email: Compliance.Australia@schwab.com
   Facsimile: (+61) 2 9247 7379

2. Please be aware that we will do everything within reason to address and resolve your concerns. If you do not receive a response from our Customer Service Manager within 14 days, or you are not satisfied with the response you receive, you are entitled to refer the matter to an external, independent complaint-handling body. We are a member of the Financial Ombudsman Service Limited ("FOS"). FOS can be contacted at:

   Post: GPO Box 3
   Melbourne VIC 3001
   Telephone: 1800 367 287
   Facsimile: (+61) 3 9613 6399
   Email: info@fos.org.au
   Website: www.fos.org.au

Part 2—Schedule of fees and costs

This PDS comprises two parts.

This is Part 2 of the CSAU PDS and should be read in conjunction with Part 1 of the PDS dated 8 September 2017.

Fees and costs associated with trading ETOs

Brokerage

CS&Co. is remunerated directly through the commissions and fees it charges you. The following tables outline the maximum amount for commissions and fees CS&Co. may charge you for trading U.S. exchange traded options. Special rates may apply to customers of related companies.

CS&Co. charges its brokerage fees on the purchase and sale of executed ETO transactions made through your trading account. The brokerage fees cover various expenses CS&Co. incurs to deliver the services shown below, and they also contribute to a profit component.

The tables at right set out CS&Co.'s standard brokerage rates. The exact cost of your transaction will be disclosed on your trading statement.

Some of the following fees may be tax deductible depending on your individual circumstances. We recommend that you consult your own professional tax advisor about this.

Fees are charged to and deducted from your trading account at the time of the relevant transaction. If there are insufficient funds in your trading account to meet your fee obligation, the transaction may be refused.

The brokerage and other fees charged by CS&Co. are subject to change upon CS&Co. providing you with 30 days notice.

All prices are in U.S. dollars.

Fees for stocks and exchange-traded funds per executed trade*

Stocks and Exchange-Traded Funds per Executed Trade Note: Exchange-Traded Funds (ETFs), including Schwab ETFs™ participating in Schwab ETF OneSource™ are subject to lower commissions. See next table.	
Online[1]	$4.95
Automated Phone	Online commission plus $5
Broker-Assisted	Online commission plus $25

ETFs, including Schwab ETFs™ participating in Schwab ETF OneSource™ per Executed Trade[2]	
Online	$0
Automated Phone	Online commission plus $5
Broker-Assisted	Online commission plus $25

*These fees also apply to trades of Canadian stocks, American Depositary Receipts, and stocks of foreign-incorporated companies that are listed on U.S. or Canadian exchanges or whose trades clear and settle in the U.S. or Canada.

Note: Short sells and buys to cover for third-party ETFs participating in Schwab ETF OneSource are subject to online commissions plus any additional fees.

Foreign Stock Transactions†	
Trades placed on the U.S. over-the-counter (OTC) market	
Online	$4.95 plus a $50 foreign transaction fee[3]
Automated Phone	Online commission plus $5, plus a $50 foreign transaction fee[4]
Broker-Assisted	$79.95: Online commission of $4.95 plus $25 for broker assistance, plus a $50 foreign transaction fee[4]
Trades placed directly on a foreign exchange	
Online	Not available
Automated Phone	Not available
Broker-Assisted	The greater of $100 or 0.75% of principal, with no maximum

† These fees apply to trades of foreign ordinary shares placed directly on a foreign exchange or on the U.S. over-the-counter (OTC) market.

[1]Up to 999,999 shares can be placed per trade.

[2]The Schwab Exchange-Traded Funds™ (Schwab ETFs™) are distributed by SEI Investments Distribution Co. (SEI). Charles Schwab Investment Management, Inc. (CSIM) serves as the registered investment adviser to Schwab ETFs™. CSIM is a wholly owned subsidiary of The Charles Schwab Corporation and an affiliate of CS&Co., Inc., none of which are affiliated with SEI.

[3]Transactions for foreign ordinary shares incur additional custody, clearing, and settlement expenses. A foreign transaction fee is added to trades placed on the U.S. over-the-counter (OTC) market through all channels. The commission and foreign transaction fee will be combined and will appear as one line item, labeled "Commission," on your trade confirmation.

Special stock transactions

- Large block transactions (orders of 10,000 or more shares, or orders over $500,000): May be eligible for special handling and/or pricing—please call us for information.
- Restricted stock transactions: Broker-assisted commission pricing schedule applies for all restricted stock trades, including those placed online. Single trade orders that include restricted and unrestricted shares of the same stock will be treated as separate orders and subject to multiple commissions at their respective applicable rates.

Mutual fund transaction fees per executed trade

Some funds may also charge sales and/or redemption fees. Please read the fund prospectuses for details. You can buy shares directly from a fund company or its principal underwriter or distributor without paying Schwab's transaction or service charges (this does not apply to Schwab Funds®).

No-Transaction-Fee Funds (includes funds available through the Mutual Fund OneSource® service)	
Online and Automated Phone	No service charge
Broker-Assisted	$25 service charge per trade
Transaction-Fee Funds[4]	
Online and Automated Phone	$76 per buy, $0 per sell
Broker-Assisted	Online or automated phone fee **plus** $25 service charge per trade

Note: For information about offshore funds (funds registered outside the U.S. for purchase by non-U.S. persons only), please call us.

[4] Standard fees apply on both transactions when placing simultaneous orders to sell one or more transaction-fee fund(s) and purchase additional transaction-fee fund(s) with the proceeds.

Option commissions per executed trade

Option Commissions per Executed Trade	
Online	$4.95, plus $0.65 per contract
Automated Phone	Online commission plus $5
Broker-Assisted	Online commission plus $25

Note: Online commissions are waived for buy-to-close options trades executed for $0.05 or less.

Note: Stock or option trades resulting from an option exercise or assignment will be subject to the corresponding online commission pricing schedule.

Fixed income investments

Schwab reserves the right to act as principal on any fixed income transaction, public offering or securities transaction. When Schwab acts as agent, a commission will be charged on the transaction. When Schwab acts as principal, the markup is included in the bond price.

Product Type	Online Commission or Markup	Broker-Assisted Commission or Markup
New Issues, including Certificates of Deposit	$0 (a selling concession may be included in the offering price)	
Treasury Bills, Notes, Bonds and TIPS (Secondary and Auction)	$0	$25
Secondary transactions for Corporate Bonds, Municipal Bonds, Government Agencies, Zero-Coupon Treasuries (including STRIPS), and Certificates of Deposit	$1 per bond ($10 minimum/ $250 maximum)	Online pricing plus $25 per trade
Preferreds or REITs	Stock commissions and minimums apply for secondary transactions.	
Commercial Paper, Foreign Bonds, Asset-Backed Securities, Mortgage-Backed Securities, Collateralized Mortgage Obligations, and Unit Investment Trusts	These are specialty products—please call us for information.	

Note: Large block transactions (orders of more than 250 bonds) may be eligible for special handling and/or pricing—please call us for information.

Note: Our commissions and markups may be slightly less than our published schedule shown above due to rounding.

Interest charged on margin balances

Debit Balance	Margin Rate	Effective Rate
$0–$24,999.99	Base Rate + 1.825%	9.575%
$25,000–$49,999.99	Base Rate + 1.325%	9.075%
$50,000–$99,999.99	Base Rate + 0.375%	8.125%
$100,000–$249,999.99	Base Rate + 0.325%	8.075%
$250,000–$499,999.99	Base Rate + 0.075%	7.825%
$500,000–$99,999.99	Base Rate – 1.175%	6.575%
$1,000,000–$2,499,999.99	Base Rate – 1.500%	6.250%
$2,500,000+	Base Rate – 1.750%	6.000%

*For balance tiers $500k and above, call **877-752-9749** for more information about our latest rate offers.

Base Rate = 7.75%.
Schwab's base rate was last changed on 09/28/2018 and is **subject to change without notice.**

Government taxes

The U.S. Securities and Exchange Commission levies a charge on the sales of equity. This fee is listed on your official trading statement, if applicable. For more information about SEC fees, go to www.investor.gov/research-before-you-invest/research/understanding-fees.

CS&Co. will deduct these charges from the proceeds of a sale or add applicable government charges to the purchase price of an order you make.

Remuneration

Our staff does not provide personal financial product advice. Staff are entitled to receive an annual salary and may in some cases receive performance-based bonuses.

Relationships or associations

CSAU is owned by The Charles Schwab Corporation. CSAU and its officers, employees, independent contractors, and owners may receive compensation in connection with marketing efforts and offers. CSAU may refer you to or provide you with financial products or services of related companies.

Professional indemnity insurance

CSAU has professional indemnity insurance in place which complies with the requirements of S912B of the Corporations Act. This insurance provides coverage to you even when a representative ceases to be employed by or to act on the behalf of CSAU.

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