



**Charles Schwab Australia Pty Limited**

# **Futures**

**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.

## **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.

## **Futures**

Derivatives which are futures contracts or futures option contracts.

## **Margins**

The amount of cash required to be deposited with the Clearing House by both purchasers and sellers of Futures as collateral for the writer's obligation to buy or sell the underlying interest. A margin may be an 'initial margin', i.e. the amount initially required to be deposited with the Clearing House, or a 'variation margin' i.e. the amount that must be paid to the Clearing House following an adverse movement against the purchaser's or seller's Futures position.

## **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.

## **Terms and Conditions**

The specific details of the Charles Schwab Futures Account Agreement (For Customers of Charles Schwab Australia Pty Ltd) that must be entered into to enable a client to trade with Charles Schwab Futures.

## **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 ("Charles Schwab", "Us", "We") as the issuer of Futures products. 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 Futures products, including:

- Significant characteristics
- Benefits
- Risks
- Costs
- Our fees

This PDS is an important document and We recommend You contact Us should You have any questions arising from it - prior to entering into any transactions with Us.

## How to Contact Us

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Unit 5, 4 Skyline Place, Frenchs Forest NSW 2086  
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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 products 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 Futures products. There are no cooling off rights for investors.

## Updating of Information

The information contained in this PDS may be updated from time to time where the updated information is not considered adverse from an investors point of view. Charles Schwab may provide this updated information on its website [www.Schwab.com.au](http://www.Schwab.com.au). A printed copy of the updated information can be obtained by contacting Charles Schwab. Charles Schwab may be required to issue a supplementary PDS as a result of certain changes, e.g., where the updated information is considered adverse from the investors point of view in deciding whether or not to open an account with Charles Schwab and/or trade in exchange traded options.

## 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 PDS covers the following Futures traded on a Derivatives trading Exchange commonly known as:

- Futures contracts (both deliverable and cash-settled);
- Futures options (which are options over a futures contract)

## Disclosure in this PDS

Under the Corporations Act 2001, We are required to provide you with a PDS disclosing the significant risks, costs and other amounts payable in relation to the significant characteristics or features of Futures. Because of the nature of the Futures products covered by this PDS, We are able to satisfy this disclosure requirement by only providing you with general

information about the type of Futures product, including, for example

- general information about the settlement prices for the types of Futures product;
- general information about the expiry or settlement dates for the types of Futures product; and
- general information about the exercise styles for the types of Futures product.

## Introduction to Futures

A Futures contract is an agreement, to either buy or sell a specific quantity or a specific product for settlement at a specified date. Settlement can be either physical or cash settled. The underlying product may be, but is not limited to a security, index, commodity or other financial instrument. Futures contracts are traded on Exchanges worldwide.

One purpose of Futures is to provide those who deal in the underlying financial product with a facility for managing the risks associated with changing prices for those investments. Where Futures are used in this way, the strategy is known as hedging. There are also those who trade in the hope of profiting purely from changing prices in the traded commodities, financial instruments or indices, i.e. speculators. The risk of losing money is generally greater for the speculator.

The use of Futures 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 Futures involves risks that are discussed in detail below.

When buying a Futures product, the initial outlay of capital may be small relative to the total contract value so that transactions are "leveraged" or "geared". You should understand the nature and extent of Your rights, obligations and risks associated with trading Futures when entering into transactions.

When selling a Futures product, 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 Futures with Us

Prior to trading Futures with Us, You are required to do the following:

- Read this PDS which explains Our services and the types of Futures products that We can arrange for You to be issued with;
- Open a Trading Account with Us by completing an Application Form available from Our website.

Importantly, whilst this PDS provides an overview on Futures, 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 Futures that You intend to trade, as well as the relevant Exchange rules. You should read and understand the information contained in the Risk Disclosure Statement for Futures and Options available on our website [www.schwab.com.au](http://www.schwab.com.au) before you trade in Futures.

## Key Features of Futures Contracts

The material in this PDS is intended to refer to any Exchange-Traded Futures Contracts traded on a computer-based exchange unless otherwise indicated, but there may be differences in procedure and regulation of markets from one country to another and one exchange to another. For example, some Derivatives trading Exchanges still operate through open outcry.

## Deliverable or Cash Settled

There are two main types of Exchange-Traded Futures Contracts. One is an arrangement under which the seller agrees to deliver to the buyer, and the buyer agrees to take delivery from the seller of, the quantity of the commodity described in the contract. Such contracts will be described in this document as **deliverable contracts**. The other is an arrangement under which the two parties will make a cash adjustment between them according to whether the price of a commodity, financial instrument or index has risen or fallen since the time the arrangement was made. Such contracts are described in this document as **cash-settled contracts**.

## Contract Terms

Futures contracts traded on international Futures Exchanges are standardised and fungible. A consequence of contract standardisation is that while the investor determines the volume and maturity of the derivative contract by choosing which contract to enter, price is the only factor that remains to be determined in the marketplace.

An Exchange-Traded Futures Contract's terms are generally set out in the operating rules of the Derivatives Exchange on which the contract is entered into. Derivatives Exchanges exist in a number of countries, notably the United States of America, Japan and Europe. At your request, a copy of a list of the contract specifications of futures currently able to be traded through Charles Schwab Futures, may be obtained from Charles Schwab at no charge.

## Closing out

Since all Futures for a given future month in the same market are fungible, obligations under those contracts are easily transferred from one party to another. A client who holds a Futures contract to buy may cancel this obligation by taking a new contract to sell in the same month, a process known as offsetting or closing out the contract. In the same way, the holder of a contract to sell can close out by taking a new contract to buy. In each case there will be a profit or loss equal to the difference between the buying and selling prices multiplied by the standard contract amount – minus any transaction costs. In practice, the vast majority of derivatives contracts are offset in this manner, the remainder being fulfilled by delivery or by mandatory cash settlement where no provision for delivery exists.

Closing out can be achieved without reference to the original party with whom the Futures contract is. The Clearing House is able to substitute a new buyer as the contract party when an existing buyer sells to close out their position.

This can be represented by the following:

- A (seller) sells to B (buyer) at \$100 per unit. B (seller) sells to C (buyer) at \$120 per unit.
- B has bought and sold the unit and therefore has quit the market and has a profit of \$20 per unit.

At maturity, A (seller) is matched with C (buyer). In effect C has replaced B as the buyer of the contract with A. The contracts which B held (one to buy and one to sell) have been settled in cash; B simply receives a profit. Any profit due to B is paid out by the Clearing House to B's Clearing Participant in cash, even though the original seller (A) remains in the market. The Clearing House ensures that it is able to pay such profits by calling initial margin and variation margin from Clearing Participants to cover any unrealised losses in the market. The Clearing House will calculate initial and variation margin amounts. Clearing Participants will require that executing brokers pay them the margin amounts when called. Executing brokers will in turn call margin amounts from their clients.

## Key Features of Futures Options

Option contracts traded over Futures contracts are commonly known as Futures options. These are distinguished from options over equities which are traditionally traded on stock exchanges. The following attempts to explain the nature of a Futures option contract and the

obligations assumed by a person who instructs a broker to enter into a Futures option. Several facts referred to previously are also applicable to Futures options, for example, the concept of standardisation. Only the facts particularly relevant to Futures options will be discussed below.

From the buyer's viewpoint, a Futures option gives the buyer the right, not the obligation, to enter into a Futures contract at the prescribed exercise price of the Futures option in return for payment of a premium. From the seller's viewpoint, the seller has no right other than a right to the premium. The seller will be under an obligation to enter into a Futures contract at the exercise price of the Futures option if the option is validly exercised by the buyer. Like Futures contracts, Futures options are standardised so that having bought a Futures option, it is possible to sell it later to a third party and vice versa.

## European and American Options

European options can only be exercised on the expiry date, not before. American options can be exercised at any time up to the date the option is due to expire.

You should determine whether the option you are dealing with is an American or European option before you enter into the transaction. This will be different in accordance with the Operating Rules of the Futures Exchange you are trading on.

## Call and Put Options

A call option gives the buyer the right to buy (in the same market) a specified quantity of the Futures contract at a designated price at or before the expiry date of the option. The seller of a call option has the obligation to enter into a Futures contract if the Futures option is exercised by the buyer. A put option gives the buyer the right to sell (in the same market) a specified quantity of the Futures contract at the exercise price. The seller of a put option has the obligation to purchase the Futures contracts if the put option is exercised by the buyer. Each put or call option has a buyer and a seller.

The table below sets out the results from the buyer's and seller's viewpoint when the buyer exercises a call or put Futures option:

Buyer	Seller
<b>Bought call option</b>	<b>Sold call option</b>
Bought futures (at the exercise price of the option)	Sold futures (at the exercise price of the option)
<b>Bought put option</b>	<b>Sold put option</b>
Sold futures (at the exercise price of the option)	Bought futures (at the exercise price of the option)

## Benefits of Trading Futures

Futures have a number of advantages that include:

- Risk management where investors can hedge (protect) their share portfolio from a drop in value. Purchasing Futures contracts or put options allow investors holding shares to hedge against a fall in the price of the underlying asset;
- Futures benefit from standardisation 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 Clearing House;
- The initial outlay for a futures contract is not as much as investing directly in the underlying shares. Trading in futures can allow investors to benefit from a change in the price of the underlying asset without having to pay the full price of the underlying asset. An investor can therefore purchase a futures contract (representing a larger number of underlying shares) for less outlay and still benefit from a price movement in the underlying assets. The ability to make

a higher return for a smaller initial outlay is called leverage. Investors however, need to understand that leverage can also produce increased risks;

- Futures 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 strategies will have different levels of risk associated with each strategy;
- Speculation, where 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 Futures combinations allows investors to develop strategies regardless of the direction of the market;
- Investors can earn income by writing call options over Futures positions 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 Futures contracts to the taker at the exercise price. By taking a call option, the purchase price for the underlying Futures Contract is locked in. This gives the call option holder time to decide whether or not to exercise the option and buy the Futures contracts. 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 Futures contracts.

### Significant Risks of Trading Futures

The risk of loss in trading in Futures can be substantial. It is important that You carefully consider whether trading Futures is appropriate for You. The risks attached to investing in Futures will vary in degree depending on the contract traded. This PDS does not cover every aspect of risk associated with Futures. In light of the risks, you should undertake such transactions only if you understand the nature of the contracts (and contractual relationships) into which you are entering and the extent of your exposure to risk. Trading in futures and options is not suitable for many members of the public. You should carefully consider whether trading is appropriate for you in light of your experience, objectives, financial resources and other relevant circumstances.

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

#### In relation to Futures:

Transactions in futures carry a high degree of risk. The amount of initial margin is small relative to the value of the futures contract so that transactions are 'leveraged' or 'geared'. A relatively small market movement will have a proportionately larger impact on the funds you have deposited or will have to deposit: this may work against you as well as for you. You may sustain a total loss of initial margin funds and any additional funds deposited with the firm to maintain your position. If the market moves against your position or margin levels are increased, you may be called upon to pay substantial additional funds on short notice to maintain your position. If you fail to comply with a request for additional funds within the time prescribed, your position may be liquidated at a loss and you will be liable for any resulting deficit.

#### Risk-Reducing Orders or Strategies

The placing of certain orders (e.g. 'stop-loss' orders, where permitted under local law, or 'stop-limit' orders) which are intended to limit losses to certain amounts may not be effective because market conditions may make it impossible to execute such orders. Strategies using combinations of positions, such as 'spread' and 'straddle' positions may be as risky as taking simple 'long' or 'short' positions.

#### In relation to futures over securities:

##### **Under certain market conditions, it may be difficult or impossible to liquidate a position.**

Generally, you must enter into an offsetting transaction in order to liquidate a position in a security futures contract. If you cannot liquidate your position in security futures contracts, you may not be able to realize a gain in the value of your position or prevent losses from mounting. This inability to liquidate could occur, for example, if trading is halted due to unusual trading activity in either the security futures contract or the underlying security; if trading is halted due to recent news events involving the issuer of the underlying security; if systems failures occur on an exchange or at the firm carrying your position; or if the position is on an illiquid market. Even if you can liquidate your position, you may be forced to do so at a price that involves a large loss.

##### **Under certain market conditions, it may also be difficult or impossible to manage your risk from open security futures positions by entering into an equivalent but opposite position in another contract month, on another market, or in the underlying security.**

This inability to take positions to limit your risk could occur, for example, if trading is halted across markets due to unusual trading activity in the security futures contract or the underlying security or due to recent news events involving the issuer of the underlying security.

##### **Under certain market conditions, the prices of security futures contracts may not maintain their customary or anticipated relationships to the prices of the underlying security or index.**

These pricing disparities could occur, for example, when the market for the security futures contract is illiquid, when the primary market for the underlying security is closed, or when the reporting of transactions in the underlying security has been delayed. For index products, it could also occur when trading is delayed or halted in some or all of the securities that make up the index.

##### **You may be required to settle certain security futures contracts with physical delivery of the underlying security.**

If you hold your position in a physically settled security futures contract until the end of the last trading day prior to expiration, you will be obligated to make or take delivery of the underlying securities, which could involve additional costs. The actual settlement terms may vary from contract to contract and exchange to exchange. You should carefully review the settlement and delivery conditions before entering into a security futures contract.

#### In relation to Futures options:

##### **Variable Degree of Risk**

Transactions in options carry a high degree of risk. Purchasers and sellers of options should familiarize themselves with the type of option (i.e. put or call) which they contemplate trading and the associated risks. You should calculate the extent to which the value of the options must increase for your position to become profitable, taking into account the premium and all transaction costs.

The purchaser of options may offset or exercise the options or allow the options to expire. The exercise of an option results either in a cash settlement or in the purchaser acquiring or delivering the underlying interest. If the option is on a future, the purchaser will acquire a futures position with associated liabilities for margin (see the section on Futures above). If the purchased options expire worthless, you will suffer a total loss of your investment which will consist of the option premium plus transaction costs. If you are contemplating purchasing

deep-out-of-the-money options, you should be aware that the chance of such options becoming profitable ordinarily is remote. Selling ('writing' or 'granting') an option generally entails considerably greater risk than purchasing options. Although the premium received by the seller is fixed, the seller may sustain a loss well in excess of that amount. The seller will be liable for additional margin to maintain the position if the market moves unfavorably. The seller will also be exposed to the risk of the purchaser exercising the option and the seller will be obligated to either settle the option in cash or to acquire or deliver the underlying interest. If the option is on a future, the seller will acquire a position in a future with associated liabilities for margin (see the section on Futures above). If the position is 'covered' by the seller holding a corresponding position in the underlying interest or a future or another option, the risk may be reduced. If the option is not covered, the risk of loss can be unlimited. Certain exchanges in some jurisdictions permit deferred payment of the option premium, exposing the purchaser to liability for margin payments not exceeding the amount of the premium. The purchaser is still subject to the risk of losing the premium and transaction costs. When the option is exercised or expires, the purchaser is responsible for any unpaid premium outstanding at that time.

### **Additional Risks Common to Futures and Futures Options**

#### **Terms and Condition of Contracts**

You should ask the firm with which you deal about the term and conditions of the specific futures or options which you are trading and associated obligations (e.g. the circumstance under which you may become obligated to make or take delivery of the underlying interest of a futures contract and, in respect of options, expiration dates and restrictions on the time for exercise). Under certain circumstances the specifications of outstanding contracts (including the exercise price of an option) may be modified by the exchange or clearing house to reflect changes in the underlying interest.

#### **Suspension or Restriction of Trading and Pricing Relationships**

Market conditions (e.g. illiquidity) and/or the operation of the rules of certain markets (e.g. the suspension of trading in any contract or contract month because of price limits or 'circuit breakers') may increase the risk of loss by making it difficult or impossible to effect transactions or liquidate/offset positions. If you have sold options, this may increase the risk of loss. Further, normal pricing relationships between the underlying interest and the future, and the underlying interest and the option may not exist. This can occur when, for example, the futures contract underlying the option is subject to price limits while the option is not. The absence of an underlying reference price may make it difficult to judge 'fair' value.

#### **Deposited Cash and Property**

You should familiarize yourself with the repayment risk relating to money or other property you deposit for domestic and foreign transactions, in the event of a firm insolvency or bankruptcy. The extent to which you may recover your money or property may be governed by specified legislation or local rules. In some jurisdictions, property which had been specifically identifiable as your own will be pro-rated in the same manner as cash for purposes of distribution in the event of a shortfall.

#### **Commission and Other Charges**

Before you begin to trade, you should obtain a clear explanation of all commission, fees and other charges for which you will be liable. These charges will affect your net profit (if any) or increase your loss.

#### **Transactions in Other Jurisdictions**

Transactions on markets in other jurisdictions, including markets formally linked to a domestic market, may expose you to additional risk. Such markets may be subject to regulation which may offer different or

diminished investor protection. Before you trade you should inquire about any rules relevant to your particular transactions. Your local regulatory authority will be unable to compel the enforcement of the rules of regulatory authorities or markets in other jurisdictions where your transactions have been effected. You should ask the firm with which you deal for details about the types of redress available in both your home jurisdiction and other relevant jurisdictions before you start to trade.

#### **Currency Risks**

The profit or loss in transactions in foreign currency-denominated contracts (whether they are traded in your own or another jurisdiction) will be affected by fluctuations in currency rates where there is a need to convert from the currency denomination of the contract to another currency.

#### **Trading Facilities**

Most open-outcry and electronic trading facilities are supported by computer-based component systems for the order-routing, execution, matching, registration or clearing of trades. As with all facilities and systems, they are vulnerable to temporary disruption or failure. Your ability to recover certain losses may be subject to limits on liability imposed by the system provider, the market, the clearing house and/or member firms. Such limits may vary; you should ask the firm with which you deal for details in this respect.

#### **Electronic Trading**

Trading on an electronic trading system may differ not only from trading in an open-outcry market but also from trading on other electronic trading systems. If you undertake transactions on an electronic trading system, you will be exposed to risk associated with the system including the failure of hardware and software. The result of any system failure may be that your order is either not executed according to your instructions or is not executed at all.

#### **Foreign Currency Risk**

An additional risk associated with trading Futures through Us is foreign currency risk. All Futures trades are denominated in US Dollars, not Australian Dollars. Therefore, there are risks associated with the exchange rates applicable to positions held in US Dollars moving adversely against the Australian Dollar. If the value of the Australian Dollar rises, the value of any US 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 2001; and
- Settlement procedures may be different to those in Australia.

#### **Costs and Amounts Payable that Arise from Futures Trading**

##### **Costs**

Part 2 of this PDS contains information on the commission and fees attaching to the Futures services issued by Charles Schwab Futures.

##### **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 with the Clearing House by both purchasers and sellers of Futures contracts as collateral for the writer's obligation to buy or sell the underlying interest, or in the case of Futures options, to pay the cash settlement amount, if assigned an exercise. The margin amount required will depend on the relevant Clearing House or Futures Exchange. At your request, a copy of a list of margin requirements on the futures currently available through Charles Schwab Futures may be obtained from Charles Schwab at no charge.

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 Futures moves against You, You will be asked to pay a margin which reflects that adverse movement. Charles Schwab Futures may call more margin from You, compared to the amount that it is obligated to be paid according to the respective Exchange rules. Charles Schwab Futures does this as a risk management tool. The amount which Charles Schwab Futures may call is unlimited. If the amount Charles Schwab Futures calls is not provided in accordance with Charles Schwab Futures call, Charles Schwab Futures can close Your trading position and if any shortfall exists, will be entitled to recover this amount from You. Margin amounts may not be capped as for some positions, risk is unlimited.

Margin must be paid in cash by You into Your Trading Account within 24 hours of You being advised of the margin call by Us. Any interest levied on late settlement and margin payments is due and receivable at the time the amount is levied and certainly within 1 business day of a demand being made by Us.

### **Exchange and Clearing House Fees**

Exchanges and Clearing Houses charges/fees are charged to you at time of trade execution and/or settlement and are deducted direct from your trading/settlement account. At your request, a copy of a list of Exchange and Clearing House charges/fees list may be obtained from Charles Schwab at no charge.

### **Other Significant Characteristics of Futures**

#### **Trading and Clearing Options**

Futures are traded via a trading platform, through the relevant Derivatives Exchange, and cleared by the appropriate Clearing House. The Clearing Houses stand between the buying and selling brokers and guarantee the performance to each of them. Importantly, the Clearing House does not have an obligation to You, the underlying client, as the Futures will be entered into in the name of Charles Schwab, or an agent of Charles Schwab, notwithstanding that Charles Schwab and its related body corporate Charles Schwab Futures, Inc. are each acting on Your behalf.

Charles Schwab acts on your behalf to introduce you to other entities to facilitate trades on your behalf. We will appoint Charles Schwab Futures, Charles Schwab Inc. or other persons including associated entities to facilitate trades on your behalf and any person we appoint may appoint relevant execution or clearing agents in relation to the relevant trades. Certain remuneration outlined in this document may be paid to persons we appoint directly or out of remuneration paid to us.

#### **Dealings on Foreign Futures Exchanges**

Clients who deal on foreign Futures Exchanges should be aware of the following matters:

#### **Dealing Subject to Foreign Rules and Laws**

Participation in transactions on foreign Futures Exchanges involves the execution and clearing of trades subject to the rules of that foreign Futures Exchange and the laws of the country in which that exchange is domiciled. Australian regulators may not have any jurisdiction in foreign

Futures Exchanges. Australian Regulators do not have the power to compel enforcement of the operating rules of a foreign Futures Exchange or any applicable foreign laws. Generally, the foreign transaction will be governed by applicable foreign law. This is true even if the Futures Exchange is formally linked with an exchange in Australia. Moreover, such rules and regulations will vary depending on the foreign country in which the transaction occurs.

#### **Clients' Segregated Monies**

Clients who trade on foreign Futures Exchanges may not have the benefit of protective measures provided by the Corporations Act and the Operating Rules of the domestic exchanges. In particular, clients' funds may not have the same protection as funds deposited in Australia in a broker's Clients' Segregated Account. Funds deposited with an SFE market participant concerning derivatives trading are deposited into that Participant's Clients' Segregated Account. The client waives any interest on funds deposited with the broker, for initial or variation margins to trade Futures, unless any written agreement between them stipulates that interest is to be paid on such funds. Money or property or both invested according to the Corporations Act, or on the instructions of the client, are invested at the sole risk of the client. For money deposited in the Participant's Clients' Segregated Account, the client acknowledges that (unless otherwise agreed with the market participant):

- Individual client accounts are not separated from each other.
- All clients' funds are co-mingled into the one Clients' Segregated Account.
- Client monies held in a Clients' Segregated Account are protected from a default in the licensee's principal account or house account.
- Clients' Segregated Account provisions may not insulate any individual client's funds from a default in the broker's Clients' Segregated Account. Such a default may arise from any other client's trading and impact on the remaining clients' funds in the Clients' Segregated Account.
- Assets in the Clients' Segregated Account belonging to non-defaulting clients are potentially at risk, even though they did not cause the default.
- The broker has the right to apply all clients' monies held in its Clients' Segregated Account to meet the default in that account.
- Clearing House has the right to apply all monies in the broker's Clients' Segregated Account held at Clearing level (Client Clearing Account) or House Clearing Account to meet any liabilities in the Clients' Segregated Account at Clearing Level.
- The broker is ultimately obliged to pay its own monies into its Clients' Segregated Account where there has been a default in that account. If you have a deliverable Futures contract open at the close of trading on the last day of trading you will be under an obligation to deliver, or take delivery of and pay the contract price in full for the commodities described in the specifications. Please note that it is the policy of some brokers not to permit speculators to make or take delivery under a deliverable Futures contract (except where required by the Clearing House). If you wish to make or take delivery first check with Us.

If you have a cash settled contract open at the close of trading on the last day of trading, you will be under an obligation to pay or have a right to receive an amount of money depending on the price movement.

The settlement of Futures options is more complex and varies according to the relevant exchange. Check with your adviser before the expiry date or the option may lapse worthless. You should always check the contract specifications of the particular contract before trading any unfamiliar Futures or options contracts. The settlement procedures for Futures that are exchange traded options is different again. Because

these instruments can be traded on futures and stock exchanges the procedures can vary widely.

### **Out-of-the-money Options**

This is a term used to describe an option that cannot be exercised at a profit. An out-of-the-money option is a call option where the strike price is higher than the current market level or a put option where the strike price is below market. If You are contemplating purchasing a deep out-of-the money option, You should be aware that the chance of such an option becoming profitable is, ordinarily, remote.

### **Significant Taxation Implications**

It is important to note that Your tax position when trading Futures will depend on Your individual circumstances and You should consult Your own taxation adviser before making any decisions to trade in Futures.

The taxation consequences of trading in Futures 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 advisers and recommend that You discuss any taxation issues with Your tax adviser before entering or disposing of a Futures contract.

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

You can provide Your transaction instruction details to Us over the telephone or 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:

Charles Schwab Australia Unit 5, 4  
Skyline Place Frenchs Forest NSW 2086 Australia  
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 to Us to develop a privacy policy to inform clients about how We endeavour to keep their information secure and in what manner We use their personal information.

We are bound by the National Privacy Principles that form part of the Privacy Act, 1988. This determines 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 this policy, please contact Us by email at [Australia.Compliance@schwab.com](mailto:Australia.Compliance@schwab.com), or write to Us at the address shown above.

### **Complaints or 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. Contact one of our broker advisors.
2. If at the first point of contact Your problem is not resolved to Your satisfaction, please contact our Customer Service Manager:

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

3. Please be aware that we will do everything within reason to address and resolve Your concerns. If an issue has not been resolved to your satisfaction, you can lodge a complaint with the Australian Financial Complaints Authority, or AFCA. AFCA provides fair and independent financial services complaint resolution that is free to consumers. AFCA can be contacted at:

**In writing to:** Australian Financial Complaints Authority,  
GPO Box 3, Melbourne VIC 3001  
**Telephone:** 1800 931 678 (free call)1  
**Email:** [info@afca.org.au](mailto:info@afca.org.au)  
**Website:** [www.afca.org.au](http://www.afca.org.au)

## Part 2 – Schedule of Fees and Costs

### **This PDS comprises Two Parts.**

This is Part 2 of the Charles Schwab Australia's PDS and should be read in conjunction with Part 1 of the PDS dated 01 November, 2018 which describes the Futures products offered by Charles Schwab Futures.

Part 2 shows the commission, fees and other costs that You may be charged.

These commissions, fees and other costs may be deducted from your money, from the returns on your investment or from the Fund assets as a whole. Taxes are set out in Section 9 of this PDS. You should read all information about fees and costs, as it is important to understand their impact on your investment.

### **Commission & Fees**

Charles Schwab Futures is remunerated directly through the commission and fees it charges you. The following table outlines the maximum amount for commissions and fees Charles Schwab Futures may charge you for trading U.S. exchange traded futures. Special rates may apply to customers of related companies.

Charles Schwab Futures charge commission and fees on the purchase and sale of executed Futures transactions made through Your Trading Account. Charles Schwab Futures fees cover various expenses incurred to deliver the services shown below as well as a profit component in some cases.

#### **STANDARD / COMMISSION RATES**

All prices in \$US

**Futures/Futures Options** \$1.50 Price per Contract, per Side

Trades at some foreign exchanges may be subject to additional fees. The table above does not include customary NFA and exchange fees. Additional fees may apply at some foreign exchanges. Exchange fees will be available on our website at <http://www.schwab.com.au>.

The exact cost of Your transaction will be disclosed on Your Trading Statement.

We recommend that You consult Your own professional tax adviser about the tax implications of fees paid by You.

Commission and 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.

**Charles Schwab Futures commission and fees are accurate as at the date of this document but are subject to change at any time. For current commissions and fees, please visit our website at [schwab.com.au](http://www.schwab.com.au)**

Certain remuneration outlined in this document may be paid to persons we appoint directly or out of remuneration paid to us.

### **Remuneration**

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

### **Relationships or Associations**

Charles Schwab is a related company under the common ownership of Charles Schwab Holdings, Inc which is owned by The Charles Schwab Corporation. Charles Schwab Australia Pty Ltd. and their officers, employees, independent contractors, and owners may receive compensation in connection with marketing efforts and offers. Charles Schwab may refer you to or provide you with financial products or services of related companies.

### **Professional Indemnity Insurance**

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

You may find further information about Our other products and services through Our website [www.schwab.com.au](http://www.schwab.com.au).