



ASX

AUSTRALIAN SECURITIES EXCHANGE

Using Options for Margin Lending

Fact Sheet

New opportunities through investing in Options

You already know the opportunities that margin lending can add to your share investments. Now you can expand the range of investment strategies for your margined shares.

Use your shares as collateral

ASX Clearing Corporation accepts margined shares as collateral via an arrangement with margin lenders. This means that for investors who wish to sell covered call options, it's easier than ever before. Check with your margin lender to see if they offer this service.

Earn extra income by selling call options over your shares

Selling call options involves selling ASX exchange traded options against shares you own. This is termed a "covered call", because the call option is covered by the shares you own.

Expand your investment opportunities

Under arrangements with ASX, when you buy securities on margin you can sell a covered call option. The income earned from the call option will lower your costs. This allows you a greater choice of investment opportunities.

Using margined shares as collateral

Let's look at this simple example: *

REGULAR MARGIN LENDING

You buy 300 Telstra shares at \$5:	Market price \$1500
You borrow 70% of the purchase price of the shares:	Margin loan \$1050
Outlay for 30% price of the shares:	You pay \$450

Next, by selling covered call options, you can earn extra income:

WITH OPTIONS

You then sell 3 call options for 25 cents per contract**:	You receive \$75
Overall cost* to you:	You pay \$375

* excludes transaction costs. Costs may include the interest on your margin loan and brokerage. Your shares may generate income.

** each contract is 100 shares, so 3 x 25c x 100 = \$75

By selling call options, you earned an extra \$75. So sale proceeds can increase the income generated from your share investment. Another way to look at this is your effective purchase price for the shares is \$4.75 (your cost of \$1425 divided by 300 shares).

Know the risks

Selling covered call options over margined shares is a useful investment strategy for the confident investor, however you should ensure you fully understand the risks involved. Buying shares on margin also involves risks which you should discuss with both your financial adviser and margin lender.

You should also seek professional advice on the tax implications for investment income.

Covered call selling involves two risks:

- 1. If the price of the shares falls.** While the income received from selling the option offsets a fall in the share price to some extent, you only receive a fixed amount. For example Telstra could fall to \$3.00, but you receive no more than the fixed amount of \$75 (or 25c per share) extra income from the options.
- 2. If the share price rises,** your option will probably be exercised. This means the buyer of that option will require you to deliver the 300 shares, which "cover" the options that you sold. So if the three call options you sold had an exercise price of \$5.50, regardless of how high the share price rises, the maximum you will receive for your shares will be \$5.50. And you retain the \$75 extra income. In this example your sale price for Telstra would be \$5.75, no matter how far the share price rises.

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Selling covered call options

Looking at the previous example:

- If the share price rises, you are locked into a selling price of \$5.75 for your Telstra share: \$5.50 you receive for the shares plus 25 cents you receive for the options
- If the share price stays the same, you have earned \$75 extra income on your shares.
- If the share price falls, the \$75 income you earned from selling the call options will offset some of the unrealised loss made on holding the shares.

How do I take advantage of this?

There are two things you need to do:

1. Contact your margin lender to confirm that they offer this service. If so, your margin lender will arrange the necessary documentation with ASX Clear. This will enable shares that you have bought on margin to be lodged as collateral with the Exchange.
2. Contact your broker and ensure all the correct documentation is in place. A suitably accredited adviser should be able to answer any questions you may have.

It's simply a matter of your margin lender, your broker and you each completing authorisation forms.

Additional information

- Consult your margin lender or broker
- Contact ASX customer service on 131 279
- Visit www.asx.com.au/options

Like any investment, index options have risks that you need to understand before investing. Specific risks include market risk. You should obtain independent advice from a professional advisor prior to making any final decision.

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