

# Total Return Single Stock (TORESS) LEPOs

30 November 2015

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TORESS LEPOs have two distinguishing features which differentiate them from standard LEPOs currently available to trade on ASX.

1. The first feature is that ordinary cash dividends paid on the underlying shares are adjusted via a cash transfer of an amount equal to the dividend between the option seller and buyer. This feature aims to ensure that neither the buyer nor seller are disadvantaged by a substantial change to expected dividend payouts from the company whose shares the options are listed over. This can occur for standard LEPOs where there is no adjustment and expected dividends are reflected in the market price. Only the interest rate component is unknown.
2. The second feature is that the options will be cash settled upon exercise as opposed to physical delivery.

TORESS LEPOs will be differentiated from standard options through a different security code. In general the first two characters will denote (map to) the underlying ASX code eg. BH for BHP, the third character will be a set numerical value (i.e. 8), the fourth, fifth and sixth characters will be similar to standard options being the clearing codes randomly assigned by ASX.

## Product Highlights

- TORESS LEPOs will be listed on a request basis only.
- Cash settlement at exercise is on T+1 whereby T = the exercise/assignment date.
- Cash payment/transfer of dividend amount to the client's clearing participant is on T+1 whereby T = underlying ordinary dividend payment date. Payments by clearing participants to clients will occur on or after T+1.
- Last cum-entitlement date for TORESS LEPOs align with the last cum-entitlement date for the underlying shares in order to determine entitlement to the dividend equivalent payment.
- Maturity is limited to a maximum of 1 year with the expiry date coinciding with the current standardised ETO expiry dates.
- TORESS LEPOs allow for specific and general collateral lodgement.
- Naming convention follows an underlying coding basis of XX8. Please refer to contract specification for further details.

## IMPORTANT

**It is recommended that retail investors seek independent advice about the suitability of TORESS LEPOs for their investment objectives before investing.**

## While the LEPO position is open

### Costs

One TORESS LEPO contract usually represents 100 shares, but the investor only outlays a small margin as compared to the value of the shares. Brokerage is payable at a flat rate or based on the full premium. For more information contact your broker.

### Margins

Throughout the life of a TORESS LEPO, margins may be payable by both the buyer and the seller. Refer to the publication Margins which can be viewed on the ASX website at [www.asx.com.au/understandingmargins](http://www.asx.com.au/understandingmargins)

### Adjustment to the number of underlying shares

If there is a rights issue, bonus issue, reconstruction or other event, the number of underlying shares that the TORESS LEPO refers to may change. Adjustments are generally the same as for standard exchange traded options. More information about adjustments can be found at [www.asx.com.au/options](http://www.asx.com.au/options)

### Dividends and voting

The buyer of a TORESS LEPO is entitled to receive an amount equal to ordinary cash dividends paid on the underlying shares if the buyer holds the TORESS LEPO on the last cum date for dividends on the underlying shares in respect of that dividend. The buyer does not obtain any franking credits in relation to the dividend. The buyer's right to an amount equal to the dividend remains regardless of whether the contract is exercised, expires or is closed out prior to the payment date.

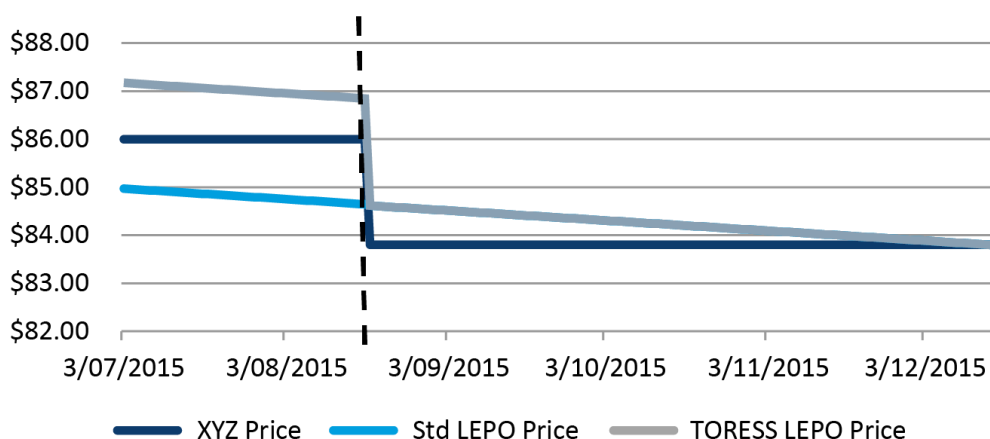
The seller of a TORESS LEPO is obligated to pay an amount equal to ordinary cash dividends paid on the underlying shares if the seller holds the TORESS LEPO on the last cum date for dividends on the underlying shares in respect of that dividend. The seller's obligation remains regardless of whether the contract is exercised, expires or is closed out prior to the payment date.

The buyer does not obtain any voting rights in relation to the underlying shares.

### Closing out

The TORESS LEPO trader can elect to close out at any time prior to expiry, by simply selling the same series as initially purchased, or buying the same series as initially sold. In each case the total profit (or loss) (before allowing for costs and tax) will be the difference between the premium of the TORESS LEPO in the initial transaction and the premium of the TORESS LEPO in the closing transaction, adjusted for the dividend amount (if any) where applicable. Margins will be reversed and any surplus (or deficit) will be credited (or debited) back to the investor the day after close out.

## Price comparison dynamics between Stock, Std LEPO and TORESS LEPO



The chart compares the price movement of a share, standard LEPO and TORESS LEPO pre, post and during the period when a share moves from cum to ex-dividend. As can be seen TORESS LEPOs react similar to a share apart from the cost of funding eroding over time. Whereas a standard LEPO has an expected dividend reflected in its market price making it lower than that of a TORESS LEPO.

### Comparison of a purchase of 100 BHP shares with the purchase of May BHP TORESS LEPO

The below table compares the purchase of 100 BHP shares and the purchase of 1 TORESS LEPO when the market rises as expected. Investing in the shares would have returned \$837 or around 20.08%, while investing in the TORESS LEPO would have returned \$826 on an initial margin of \$376 or around 219.7%. The lower initial outlay results in leveraged

returns on the TORESS LEPO. Please note the cost of funding and transaction costs and taxes have not been included in this example which would reduce the returns of both investments.

		<b>Buying a TORESS LEPO</b>		
<b>Date</b>	<b>Buying 100 shares purchase price = \$41.68</b>	<b>Premium = \$4,178 per contract or \$41.78 per share Contract size = 100</b>		
14-Apr	Buy 100 BHP @ 41.68 = \$4,168	LEPO price \$41.78	\$376	pay
		"Total Initial outlay = Risk Margin = 9% indicative (actual margin could be higher or lower) x \$4,178"		
21-Apr	Share price up to \$44.42	LEPO price up to \$44.50		
		Risk Margin = 9% x \$4,450 - 9% x \$4,178	\$24.48	debit
		Mark to Market Margin = \$4,450 - \$4,178	\$272	credit
		Daily Settlement	\$247.52	receive
28-Apr	Share price down to \$43.99	LEPO price down to \$44.05		
		Risk Margin = 9% x \$4,405 - 9% x \$4,450	\$4.05	credit
		Mark to Market Margin = \$4,405 - \$4,450	\$45	debit
		Daily Settlement	\$40.95	pay
28 Apr	BHP cum \$0.50 per share	BHP LEPO cum \$0.50 per share		
29 Apr	BHP ex \$0.50 per share	BHP LEPO ex \$0.50 per share		
5-May	Share price up to \$44.66	LEPO price up to \$44.70		
		Risk Margin = 9% x \$4,470 - 9% x \$4,405	\$5.85	debit
		Mark to Market Margin = \$4,470 - \$4,405	\$65	credit
		Daily Settlement	\$59.15	receive
12-May	Share price up to \$47.38	LEPO price up to \$47.40		
		Risk Margin = 9% x \$4,740 - 9% x \$4,470	\$24.30	debit
		Mark to Market Margin = \$4,740 - \$4,470	\$270	credit
		Daily Settlement	\$245.70	receive
13 May	BHP holder paid \$0.50 dividend per share by the company			
14 May		BHP TORESS LEPO holder's clearing participant paid \$0.50 per share	\$50.00	receive
19-May	"Sell shares @ \$49.55 = \$4,955"	"LEPO Exercised LEPO price up to \$49.54"	\$426.60	credit
		Risk Margin Reversed		
		Mark to Market (\$4,954 - \$4,740)	\$214	credit
Share profit + dividend = \$4,955 - \$4,168 + \$50.00 = \$837		LEPO Profit + dividend = \$4,954 - \$4178 + \$50.00 = \$826		
20-May		Balancing payment transferred to client's clearing participant (\$4,954 - \$4,740)	\$214	receive

*Expiry + 1*

The TORESS LEPO position is settled between the buyer and the seller via a balancing payment calculated by reference to the price of the underlying on the exercise date, the Premium and the net amount of Mark to Market margin received by the buyer over the life of the contract.

Risk margins are returned on the TORESS LEPO position.

**Comparison of a covered short sale of 100 BHP shares with the sale of May BHP TORESS LEPO**

The below table compares the sale of 100 BHP shares and the sale of 1 TORESS LEPO when the market rises unexpectedly. A covered short sale of shares would have lost \$837 or around 20.08%, while shorting the TORESS LEPO would have lost \$826 on an initial margin of \$376 or around 219.7%. Please note the benefit of funding is not included which would reduce the loss of both investments. The lower initial outlay results in leveraged losses on the TORESS LEPO. Transaction costs and taxes have not been included in this example.

Date	Selling 100 shares Short sale price = \$41.68	Selling a TORESS LEPO Premium = \$4,178 per contract or \$41.78 per share Contract size = 100		
14-Apr	Sell 100 BHP @ 41.68 = \$4,168	LEPO price \$41.78 "Total Initial outlay = Risk Margin = 9% x \$4,178"	\$376	pay
21-Apr	Share price up to \$44.42	LEPO price up to \$44.50 Risk Margin = 9% x \$4,450 - 9% x \$4,178 Mark to Market Margin = \$4,450 - \$4,178 Daily Settlement	\$24.50 \$272 \$297.50	debit debit pay
28-Apr	Share price down to \$43.99	LEPO price down to \$44.05 Risk Margin = 9% x \$4,405 - 9% x \$4,450 Mark to Market Margin = \$4,405 - \$4,450 Daily Settlement	\$4.05 \$45 \$49.05	credit credit receive
28 Apr	BHP cum \$0.50 per share	BHP LEPO cum \$0.50 per share		
29 Apr	BHP ex \$0.50 per share	BHP LEPO ex \$0.50 per share		
5-May	Share price up to \$44.66	LEPO price up to \$44.70 Risk Margin = 9% x \$4,470 - 9% x \$4,405 Mark to Market Margin = \$4,470 - \$4,405 Daily Settlement	\$5.85 \$65 \$69.85	debit debit pay
12-May	Share price up to \$47.38	LEPO price up to \$47.40 Risk Margin = 9% x \$4,740 - 9% x \$4,470 Mark to Market Margin = \$4,740 - \$4,470 Daily Settlement	\$24.30 \$270 \$294.30	debit debit pay
13 May	BHP stock borrower pays \$0.50 dividend to lender			
14 May		BHP TORESS LEPO seller required to pay \$0.50 per share	\$50.00	pay
19-May	"Buyshares @ \$49.55 = \$4,955"	"LEPO Assigned	\$426.60	credit

	LEPO price up to \$49.54”		
	Risk Margin Reversed		
	Mark to Market (\$4,954 - \$4,740)	\$214	debit
Share loss + dividend payout = \$4,168 - \$4,955 - \$50.00 = -\$837	LEPO Loss + dividend payout = \$4,178 - \$4,954 - \$50.00 = - \$826	\$826	loss
20-May	Balancing payment transferred (\$4,954 - \$4,740)	\$214	pay

#### Expiry + 1

The TORESS LEPO position is settled between the buyer and the seller via a balancing payment calculated by reference to the price of the underlying on the assignment date, the Premium and the net amount of Mark to Market margin paid by the seller over the life of the contract.

Risk margins are returned on the TORESS LEPO position.

## TORESS LEPO Contract Specification

### TORESS LEPOs

**Underlying security** Any share approved by ASX under guidelines for listing equity options

**Security Code** In general the first two characters will denote (map to) the underlying ASX code eg. BH for BHP, ***the third character will be a set numerical value (i.e. 8)***, the fourth and fifth character are the clearing code which is randomly assigned by the ASX. Some codes will include a sixth numerical character which is also a clearing code randomly assigned by ASX.

**Contract Size** Usually 100 shares per contract. This may be adjusted for rights, bonus issues and other capital adjustment events.

**Dividends** ***Amounts equal to ordinary cash dividends paid on the underlying shares will be paid at t+1 whereby t = the underlying payment date of the dividend. To be eligible for the payment the buyer must hold the contract on the last cum date for dividends before the underlying shares go ex. Franking credits will not be available.***

**Tick Size** \$0.001 per share = \$0.10 (contract size 100 shares) for premium below 1 cent.  
\$0.005 per share = \$0.50 (contract size 1000 shares) for premium of 1 cent or more.

**Exercise style** European (Exercisable on the expiry date only)

**Exercise price** 1 cent

**Type** Call Option only

**Contract months** Any of the front 6 months and next 2 quarterly expiries.

**Expiry date** Thursday before last Friday of the settlement month. This may change due to public holidays

**Trading hours** Normal trading 10.00am to 4.20pm (Sydney time). Late trading 4.20pm to 5.00pm and overseas trading in accordance with the ASX Operating Rules

**Settlement** **Cash**