

Part 1:

## **Product Disclosure Statement**

Incorporating Part 2:

## **Schedule of Fees**

**Issued by:** Bell Potter Securities Limited

**Date of Issue:** 31 December 2007

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**The information in this Product Disclosure Statement (PDS) does not take into account your financial circumstances. Before trading in the products referred to in this PDS, you should read this PDS and be satisfied that any trading you undertake in relation to those products is appropriate in view of your financial circumstances.**

**We recommend that you consult your financial adviser or obtain other independent advice before trading in futures and options.**

## **PURPOSE OF A PDS**

This PDS has been prepared Bell Potter Securities Limited, trading as Bell Commodities. This PDS is designed to assist you in deciding whether the products covered in this PDS are appropriate for your needs. This PDS has been prepared to assist you in comparing it with others you may be considering. The PDS is an important document and we recommend that you contact us should you have any questions arising from the PDS prior to entering into any transactions with Bell Commodities.

When we use terms 'we', 'us' or 'our' in this PDS, the reference is to Bell Potter Securities, trading as Bell Commodities. If you have any questions in relation to this PDS, please do not hesitate to contact us on 133 788 or by contacting your Adviser.

The information in this PDS does not take into account your personal objectives, financial situation and needs. Before trading in this product, you should be satisfied that such trading is suitable for you in view of those objectives, and your personal circumstances, and we recommend that you consult your investment adviser or obtain other external advice.

## **1. INTRODUCTION**

Under the Corporations Act, a retail client must receive a Product Disclosure Statement (PDS) from a financial services licensee before acquiring a financial product. The PDS is the point-of-sale document that sets out the significant features of a financial product, including its risks, benefits and cost. This Document is the PDS for exchange-traded derivatives, a type of financial product.

This Document seeks to explain in a clear, concise and effective manner exchange-traded derivatives.<sup>1</sup> Derivatives contracts traded on a derivatives market are more commonly known as:

- Futures contracts (both deliverable and cash-settled);
- Futures options (which are options over a futures contract); and
- Exchange-traded options (which are options directly over say a bank accepted bill or gold for example).

Derivatives exchanges (a type of financial market) are also known as futures exchanges. Some stock exchanges also offer derivative products.

Before you trade futures contracts/options, you should in conjunction with your broker give consideration to your objectives, financial situation and needs. You should also be aware of the risks involved and be satisfied that trading in exchange-traded derivatives is suitable for you in view of your financial circumstances.

## **2. ISSUER DETAILS**

Bell Commodities is a long established futures broker in Australia with more than 25 years of experience in providing Clients with access to futures and options markets. Further relevant details of Bell Commodities are as follows;

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<sup>1</sup> The Document does not deal with derivatives traded on over the counter markets (also known as off market).

### 3. BENEFITS OF FUTURES AND OPTIONS CONTRACTS

#### What are exchange-traded futures contracts?

An exchange-traded futures contract is an agreement, traded on a derivatives exchange, to deliver or take delivery of a specified amount of a security or a commodity of a given grade or quality, or to make a cash adjustment based on a change in the price of the commodity, financial instrument, security or stock indices at an agreed time in the future. One purpose of derivatives contracts is to provide those who deal in the traded commodities, financial instruments and securities with a facility for managing the risks associated with changing prices for those investments.<sup>2</sup>

There are also those who trade in the hope of profiting purely from changing prices in the traded commodities, financial instruments or indices, ie. speculators. The risk of losing money is generally greater for the speculator.

#### Types of exchange-traded futures contracts

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 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 themselves 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 will be described in this document as cash settled contracts.

An exchange-traded futures contract's terms are generally set out in the Operating Rules of the exchange on which the contract was made. Derivatives exchanges exist in a number of countries, notably the United States of America, Japan, Europe and Australia. The material in this document 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 futures exchanges still currently operate through open outcry.<sup>3</sup>

Exchange-traded futures contracts are made for periods of up to several years in the future, although most are for settlement within 6 months of the contract being made. Part of the standardisation of exchange-traded futures contracts is that the time of delivery or settlement is one of a series of standardised maturity times. For example, in the SPI-200® cash settled contract traded on the Sydney Futures Exchange (SFE), contracts can be made for settlement at the end of any month of March, June, September or December during a period of 18 months from the time of the trade.

Deliverable contracts involve an obligation to deliver for the seller of the contract or take delivery at maturity for the buyer of the contract. If you are speculating, it is not advisable to enter into such contracts in the last weeks before maturity unless actual delivery is contemplated. If you intend to make or take delivery, first check with your broker.

#### Exchange-traded derivatives contracts are standardised

Derivatives contracts - more particularly futures contracts - traded on the SFE are standardised and fungible.<sup>4</sup> A consequence of contract standardisation is that the price is the only factor that remains to be determined in the marketplace.<sup>5</sup> On the SFE, derivatives contracts are quoted and traded on SYCOM®. SYCOM® provides a system of continuous price discovery. This means that the price at which trades take place may continually change throughout a trading session. These characteristics are also common throughout the major international derivatives exchanges.

Since all derivatives contracts for a given future month in the same market are fungible obligations under those contracts, they are easily transferred from one party to another. A Client who holds a derivatives 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.

<sup>2</sup> These people are known as hedgers.

<sup>3</sup> This means that each bid to buy or offer to sell must be stated aloud in such a manner that it may be heard by all other traders in the pit trading that particular futures contract. All those present then have an equal chance to accept the bid or offer. If a trader wishes to accept a bid or offer they must state aloud their confirmation (usually with the word "right"). At that point the futures contract is concluded. The quantity must be included in any bid to buy or offer to sell.

<sup>4</sup> Fungible means that because futures contracts of a particular class are perfect substitutes for each other they can be closed out against an opposite position in the same class.

<sup>5</sup> Other than volume and contract month.

## Closing-out

Closing-out can be achieved without reference to the original party with whom the derivatives contract is traded because of a system of novation or substitution of one contracting party for another. The Clearing House of the derivatives exchange stands between the buying and selling brokers guaranteeing contract performance to each of them.<sup>6</sup> 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 sells to B at \$100 per unit;
- B sells to C at \$120 per unit;
- B has quit the market and has a profit of \$20 per unit;
- At maturity, A (seller) is matched with C (buyer).<sup>7</sup>

In effect, C has replaced B as the buyer of the contract from 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 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<sup>8</sup> and variation margin<sup>9</sup> to cover any unrealised losses in the market.

Variation margin must be paid or satisfied by any Client whose derivatives contract is showing a loss; ie. if the market falls after a purchase or rises after a sale. If a Client enters a derivatives contract to buy an SFE SPI 200 Index futures contract<sup>10</sup> when the price is 3,500 points and on the day after the SFE SPI 200 Index futures price decreases by 125 points to 3,375 points, the Client will be required to pay a margin of 125 points times \$25 (tick value) or \$3,125. Variation margin ensures that if the holder of the opposite contract wishes to offset the obligation before you do, the Clearing House will have cash on hand to pay the resulting profit. If the market fails to recover before your contract matures, this margin will not be recovered; it would then become a realised loss.

## Exchange-traded Futures Options

### What is an option?

On the SFE, and other futures exchanges, several option contracts are traded over futures contracts (commonly known as futures options). The following attempts to explain the nature of an option contract and the obligations assumed by a person who instructs a broker to enter into an option. Several facts referred to previously are applicable to options, for example, the concept of closing out. These facts will not be repeated, but only the facts particularly relevant to futures options will be discussed below.

Looked at from the buyer's viewpoint, a futures option<sup>11</sup> is the right, not the obligation, to enter into a futures contract<sup>12</sup> at the exercise price of the futures option granted in return for a premium. Looked at from the seller's viewpoint, the seller has no right as such (other than a right to the premium). The seller will be under an obligation to enter into a futures contract<sup>13</sup> at the exercise price of the futures option if the option is validly exercised. Like futures contracts, options are standardised so that having bought an option it is possible to sell it later to a third party and vice versa.

You must distinguish between futures options and exchange-traded options. If a futures option is exercised, it results in the establishment of a futures contract<sup>14</sup>. If an exchange-traded option is exercised, it results in making or taking delivery of the actual commodity underlying the option, or making a cash adjustment based on a change in the price of the commodity or on the movement in an index. The following matters can apply both to futures options and eligible exchange-traded options but the discussion will centre on futures options.

### European and American options

European options can only be exercised on the expiry date, not before.

American options are tradeable and can be exercised at any time up to the date the option is due to expire. Options traded on the SFE may be exercised at any time before the expiry date. As noted, because SFE options can be exercised at any time before the expiry date, the seller<sup>15</sup> of an option must be prepared for that option to be exercised any time before the expiry date.

<sup>6</sup> But not to individual Clients, who rely on the financial integrity of their brokers.

<sup>7</sup> This simplified example has ignored transaction costs that are normally payable.

<sup>8</sup> Also known as a deposit.

<sup>9</sup> Sometimes referred to as additional deposit or additional margin.

<sup>10</sup> Each SFE SPI 200 Index futures contract is valued at \$25 per index point. Therefore, a one (1) point movement in a futures contract equates to \$25 in contract value.

<sup>11</sup> Whether it is a call option or put option.

<sup>12</sup> Bought in the case of a call option, and sold in the case of a put option.

<sup>13</sup> Sold in the case of a call option, and bought in the case of a put option, for futures options traded on the SFE.

<sup>14</sup> That is, an eligible commodity agreement or adjustment agreement.

<sup>15</sup> Also known as the option writer or grantor of the option.

## Call and Put Options

A call option is the right but not the obligation to buy in the derivatives market at a designated price<sup>16</sup> at any time before the expiry date (commonly known as American options). A put option is the right but not the obligation to sell in the derivatives market at the exercise price. Each put or call option has a buyer and a seller. There are also European options which are exercised or assigned only the expiry date.

## Exercising call and put options

The diagram 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	
Bought call option ->	Bought futures (at the exercise price of the option)	Sold call option ->	Sold futures (at the exercise price of the option)
Bought put option ->	Sold futures (at the exercise price of the option)	Sold put option ->	Bought futures (at the exercise price of the option)

For further information concerning derivatives contracts traded on the SFE, you are referred to the brochure "Introduction to Futures and Options" found on the SFE website at [www.sfe.com.au/index.asp?dispage=/site/html/trading/products/intro.asp](http://www.sfe.com.au/index.asp?dispage=/site/html/trading/products/intro.asp). If you cannot access this website, please contact Bell Commodities so that we can forward a copy of the information to you by another means.

## 4. BASIC RISKS EXPLAINED

The risk of loss in trading in derivatives contracts can be substantial. A Client should carefully consider whether trading is appropriate for them in light of their financial circumstances. In deciding whether or not you will become involved in trading, you should be aware of the following matters:

- You could sustain a total loss of the initial margin that you deposit with your broker to establish or maintain a derivatives contract.
- If the derivatives market moves against your position, you may be required, at short notice, to deposit with your broker variation margin in order to maintain your position. Those additional funds may be substantial. If you fail to provide those additional funds within the required time, your position may be liquidated at a loss and you will be liable for any shortfall in your account resulting from that failure.
- Under certain conditions, it could become difficult or impossible for you to close out a position. This can, for example, happen when there is a significant change in prices over a short period.
- The placing of contingent orders (such as a 'stop-loss' order)<sup>17</sup> may not always limit your losses to the amounts that you may want. Market conditions may make it impossible to execute such orders.
- A "spread" position is not necessarily less risky than a simple "long" or "short" position.<sup>18</sup>
- The high degree of leverage that is obtainable in trading exchange-traded contracts because of small margin requirements can work against you as well as for you. The use of leverage can lead to large losses as well as large gains.
- If you propose to trade in futures options, the maximum loss in buying an option is the amount of the premium, but the risks in selling an option are the same as in other futures trading.

## 5. AMOUNTS PAYABLE

Futures and options transactions are usually charged brokerage on a per lot basis at an agreed rate in the contract's denominated currency. The brokerage amount agreed is subject to GST in accordance with Australian Tax Law. Certain products, such as LME metal business, may be charged based on a percentage of deal value.

Brokerage is quoted on a per lot round-turn basis, that is based on the opening of the transaction and the subsequent closure of the position, whether by the execution of an opposite position, by mandatory settlement, delivery or option expiry. In addition, electronic exchange fees for some non-Australian exchanges may be applicable where imposed by the exchange. Brokerage is usually charged 50% on the opening and 50% on the closing of the position, or in the case of options it may be charged 100% on the opening of the trade. This arrangement will be specified in the Account Opening Documentation issued. The amount will be deducted in accordance with the arrangement on the booking of the trade to the Client account.

<sup>16</sup> Also known as the exercise price or strike price.

<sup>17</sup> Is an order that becomes a market order (and hence executed) when the derivatives market reaches the designated price.

<sup>18</sup> A spread is the holding of bought futures contract for one delivery month and a sold futures contract for another delivery month in the same contract.

The amount of brokerage agreed will vary according to the account size, currency of the futures/options contract, frequency of transactions and level of advice required. Brokerage rates are subject to negotiation by the Client and the Adviser, and it is therefore essential that Clients discuss brokerage rates with their Adviser.

The amount to be charged in brokerage is fully disclosed in the Account Opening Documentation and agreed when the Client executes the Client Account Agreement. Any subsequent amendment to brokerage will be advised in writing to the Client.

Brokerage and GST are charged separately to any premium value received or paid in respect of options, or any settlement value as a result of the closure of an open futures position, and are detailed separately on tax invoice documentation issued for each transaction. Where the amount is due in a currency other than Australian dollars, unless specified at account opening the amount will convert to Australian dollars at the prevailing daily rate, and will be shown in both the traded and converted currency.

As brokerage is negotiable between the Client and the Adviser, the following table shows the maximum brokerage that may be charged per lot. Note that these amounts are GST exclusive and are quoted "round-turn", and will be stated on the Account Opening Documentation when issued for agreement prior to the opening of an account.

<b>Market/Product</b>	<b>Maximum</b>	<b>Additional Electronic Exchange Fees</b>
SFE	A\$84.00	
SFE Wool	A\$102.20	
SFE Cattle	A\$107.20	
SFE D-Cypha Peak Load Electricity	A\$115.60	
SFE D-Cypha Base Load Electricity	A\$149.20	
ASX Grain	A\$87.20	
United States	US\$70.00	US\$1.00-US\$3.00
Canadian	CND74.00	
European – GBP denominated	GBP48.00	
European – Euro denominated	EUR60.00	
Asian – Yen denominated	¥8,000	
Asian – Hong Kong Dollar denominated	HKD450	

(Note that Brokerage for currencies not listed above should be discussed with your Adviser).

LME business may be quoted on a per lot basis using the above table, or as a percentage of the deal value. Percentage-based brokerage is usually reserved for large transactions, normally dealing with wholesale or institutional Clients. The percentage to be charged is within 0.0625% to 0.2500%, and is negotiable between the Client and the Adviser.

In addition to brokerage, Bell Commodities will charge for the following administration services where requested by the Client.

- Duplicate account statements
- Copies of taped conversations
- Transcripts of taped conversations
- Bank charges for dishonored cheques (as incurred by Bell Commodities)
- Bank charges for telegraphic or RTGS payments (as incurred by Bell Commodities)

These services will be subject to 10% GST where applicable.

### **Margins**

To protect the financial security of both the broker and the Clearing House until variation margins are paid, each Client is required to pay initial margins. Initial margins are set by the Clearing House or the derivatives exchange or both. Initial margin may vary from time to time according to the volatility of the market. This means that an initial margin may change after a position has been opened, requiring a further payment (or refund, where applicable, on request). Initial margins are carefully calculated to cover the maximum expected movement in the market from one day to the next. A broker is entitled to call a higher initial margin than the minimum set to protect its personal obligation incurred when dealing on a Client's behalf. Liability for initial margin occurs at the time of the trade, and should be paid to the broker before any trading is conducted on the Client's behalf.

Clients can incur losses before a contract is closed out. In the case of SFE contracts, brokers are not obliged to call their Clients for variation margin on a daily basis, but must call them to pay a margin should the Client's net variation margin position exceed 25% of the Client's total initial margin liability.<sup>19</sup>

<sup>19</sup> Requirements concerning contracts traded on other futures exchanges will vary.

SFE Market Participants are required under the SFE's Operating Rules to call an initial margin on each trade equal to at least the minimum initial margin set by the Clearing House or the derivatives exchange or both. The variation margin liability is incurred at the time of the occurrence of any movement in the market that results in an unrealised loss, regardless as to when the call to pay is made by the broker on the Client.

Initial and variation margin must be paid immediately after the call.<sup>20</sup> If a Client does not pay a margin, the broker is entitled to close-out the Client's position and deduct the resulting realised loss from the initial margin. If the realised loss exceeds the initial margin, the Client is required to pay the excess to the broker. Derivatives markets can be highly volatile and a Client should ensure that they are always contactable by the broker. If a Client is unable to be contacted for the purpose of the broker communicating the call, the broker may close-out the Client's derivatives contracts without actually speaking to the Client.

### Liability

The liability of a Client under a futures contract is not limited to the initial margin which that Client paid to the broker when the contracts were first opened. If, after paying the initial margin, the price moves against the Client, further margin (known as variation margin) will be called and must be paid on demand. Margin payments can therefore exceed the amount of the initial margin and any variation margin. Initial margin (unless eroded by losses) can be paid to the Client on settlement of the contract. Margins that become realised losses are not refundable. Margins called as a result of unrealised losses are not refundable unless there is a favourable change of direction in market prices before settlement or closing out of the futures contract. The liability of a Client is not limited to the amount of the initial or variation margin paid.

### Profit and loss when trading futures

The diagram below sets out profit and loss situations when trading futures contracts.

Profitable Trades		Losing Trades	
Buy Low	Sell High	Buy High	Sell Low
Sell High	Buy Low	Sell Low	Buy High

### Margins and liability on option contracts

If a Client buys a futures option, their loss is limited to the premium, which is non-refundable. If the option buyer pays the full premium at the time the option is traded, they will not be called upon to pay "margins". If the buyer paid only an initial deposit, they may be called upon to pay margins up to the full value of the premium (but no more). A Client who sells the option has a similar potential liability to the holder of the underlying futures contract, that is, potentially unlimited. However, they only have limited profit potential; a seller cannot earn more than the premium for which the option is sold.

### Profit and loss when trading options

The diagram below sets out profit and loss situations when trading call and put options:

Profitable Trades		Losing Trades	
Buying a call option	- Buy low Sell high*	Buying a call option	- Buy high Sell low*
Buying a put option	- Buy high Sell low*	Buying a put option	- Buy low Sell high*
Selling a call option	- Sell high Buy low**	Selling a call option	- Sell low Buy high**
Selling a put option	- Sell low Buy high**	Selling a put option	- Sell high Buy low**

\* Refers to the buying of the option

\*\* Refers to the selling of the option.

### 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 whose strike price is higher than the current market level or a put option whose strike price is below market.

A Client contemplating purchasing a deep out-of-the-money option<sup>21</sup> should be aware that the chance of such an option becoming profitable is ordinarily remote.

<sup>20</sup> This is generally taken to mean within 24 hours of the demand although in times of extreme price volatility this may mean as little as 1 hour.

<sup>21</sup> That is, an option with an exercise price significantly above, in the case of a call option, or significantly below, in the case of a put option, the current price of the underlying futures contract or commodity

## Margin Listings

Most exchanges publish the latest initial margin rates on their websites. Clients should note that where speculative/hedge or maintenance margins are quoted, the “speculative” initial margin rate shall be applied as the minimum initial margin on any futures position held with Bell Commodities.

Sydney Futures Exchange (SFE)	<a href="http://www.sfe.com.au">http://www.sfe.com.au</a>
Australian Stock Exchange (ASX)	<a href="http://asx.com.au">http://asx.com.au</a>
Chicago Mercantile Exchange (CME)	<a href="http://www.cme.com">http://www.cme.com</a>
Chicago Board of Trade (CBOT)	<a href="http://www.cbot.com">http://www.cbot.com</a>
New York Board of Trade (NYBOT)	<a href="http://www.nybot.com">http://www.nybot.com</a>
Chicago Board of Options Exchange (CBOE)	<a href="http://www.cboe.com">http://www.cboe.com</a>
Philadelphia Stock Exchange (PHLX)	<a href="http://phlx.com">http://phlx.com</a>
New York Mercantile Exchange (NYMEX)	<a href="http://www.nymex.com">http://www.nymex.com</a>
Kansas City Board of Trade (KCBT)	<a href="http://kcbt.com">http://kcbt.com</a>
Minneapolis Grain Exchange (MGE)	<a href="http://www.mgex.com">http://www.mgex.com</a>
Montreal Exchange (ME)	<a href="http://www.me.org">http://www.me.org</a>
Winnipeg Commodity Exchange (WCE)	<a href="http://www.wce.ca">http://www.wce.ca</a>
Euronext	<a href="http://www.euronext.com">http://www.euronext.com</a>
Eurex	<a href="http://www.eurexchange.com">http://www.eurexchange.com</a>
London International Financial Futures Exchange (LIFFE)	<a href="http://www.liffe.com">http://www.liffe.com</a>
London Metal Exchange (LME)	<a href="http://www.lme.co.uk">http://www.lme.co.uk</a>
International Petroleum Exchange (IPE)	<a href="http://www.theice.com">http://www.theice.com</a>
Singapore Exchange (SGX)	<a href="http://www.sgx.com">http://www.sgx.com</a>
Hong Kong Exchange (HKEX)	<a href="http://www.sehk.com.hk">http://www.sehk.com.hk</a>
Tokyo International Financial Futures Exchange	<a href="http://www.tfx.co.jp">http://www.tfx.co.jp</a>

If you cannot access any of the above websites, please contact Bell Commodities so that we can forward a copy of the information to you by another means.

## 6. OTHER SIGNIFICANT CHARACTERISTICS OF DERIVATIVES CONTRACTS

### Dealings on foreign derivatives exchanges

Clients who deal on foreign derivatives exchanges should be aware of the following matters:

#### Dealing subject to foreign rules and laws

Participation in transactions on foreign derivatives involves the execution and clearing of trades subject to the rules of that foreign derivatives exchange and the laws of the country in which that exchange is domiciled.

#### Australian regulators may not have any jurisdiction

Neither the Australian Securities and Investments Commission nor the SFE regulate activities of foreign derivatives exchanges, including the execution, delivery and clearing of transactions, nor do they have the power to compel enforcement of the operating rules of a foreign derivatives exchange or any applicable foreign laws. Generally, the foreign transaction will be governed by applicable foreign law. This is true even if the derivatives 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 derivatives exchanges may not have the benefit of protective measures provided by the Corporations Act 2001 (Cwth) and the SFE Operating Rules. 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 derivatives contracts, 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 2001 (Cwth), 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:
- individual Client accounts are not separated from each other;
- all Clients' funds are co-mingled into the one Clients' Segregated Account;
- Client 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 Client's trading;
- 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; and
- SFE Clearing has the right to apply all monies in the Client Clearing Account (or House Clearing Account) to meet any liabilities in the Client Clearing Account.

### **Exchange rate risk**

If a Client trades in derivatives contracts denominated in currencies other than Australian dollars, a Client may lose money due to exchange rate fluctuations. These losses may be in addition to any losses on the derivatives contract itself.

### **Settlement**

If a Client has a deliverable derivative contract open at the close of trading on the last day of trading, the Client 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. It is the policy of some brokers not to permit speculators to make or take delivery under a deliverable derivative contract (except where required by the Clearing House). If Clients wish to make or take delivery, they should first check with their Adviser.

If a Client has a cash settled contract open at the close of trading on the last day of trading, the Client 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 derivative contracts that are futures options<sup>22</sup> is more complex. On the SFE, all in-the-money<sup>23</sup> or at-the-money<sup>24</sup> options are automatically exercised by the Clearing House. The resulting position is settled as a futures position. Not all exchanges automatically exercise at-the-money or in-the-money options at expiry, particularly US exchanges. Check with your Adviser before the expiry date or the option may lapse worthless.

The settlement procedures for derivative contracts that are exchange-traded options is different again. Because these instruments can be traded on futures and stock exchanges the procedures can vary widely.

### **Regulatory bodies**

A Client may incur losses that are caused by matters outside the broker's control. For example, a regulatory authority exercising its powers during a market emergency may result in losses. A regulatory authority can, in extreme situations, suspend trading or alter the price at which a position is settled. This could also result in a loss to the Client.

In addition, Bell Commodities, the Exchange or Clearing House has the ability to amend or cancel a trade as stated in our Client Account Agreement. This could cause the Client to suffer loss or increased losses.

### **Market disruptions / emergencies**

A market disruption may mean a Client is unable to deal in a derivatives contract when desired, a Client may suffer a loss as a result. Common examples of disruption include the "crash" of a computer-based trading system, fire or other exchange emergency, futures regulatory body could declare an undesirable situation has developed in a particular futures contract and suspend trading.

### **Risk Capital**

If you are speculating, do not risk more capital than you can afford to lose. A good general rule is never to speculate with money which, if lost, would alter your standard of living.

<sup>22</sup> A futures option is an option over an exchange-traded option or a cash settled contract.

<sup>23</sup> A put option with an exercise price above the price of the subject matter of the option or a call option with an exercise price below the price of the subject matter of the option.

<sup>24</sup> Is a put or call option with an exercise price equal to the price of the subject matter of the option.

## 7. DISPUTE RESOLUTION

As part of its commitment to customer service, Bell Commodities has in place a complaints handling procedure consistent with the Australian Standard. In the first instance, Clients should raise any complaint that they have with their Adviser. If the matter cannot be resolved:

1. Send your complaint in writing to the Compliance Manager at Bell Commodities Limited, Level 33, 225 George Street, Sydney NSW 2000. If you have not received a satisfactory response, or 45 days have elapsed, you may refer the matter to Financial Industry Complaints Service ("FICS").
2. Bell Commodities Limited is a member of the FICS. FICS can be contacted on 1300 78 08 08 or PO Box 579 Collins Street West, Melbourne VIC 8007. This service is provided to you free of charge.
3. You may also choose to refer the matter to the Australian Securities and Investments Commission (ASIC). ASIC may be contacted on their freecall Infoline on 1300 300 630.

If you require further information on how complaints are handled by Bell Commodities, please visit our website on [www.bellcommodities.com.au](http://www.bellcommodities.com.au) or refer to your Financial Services Guide.

## 8. TAXATION IMPLICATIONS

It is important to note that a Client's tax position when trading exchange-traded derivatives will depend on their individual circumstances. The taxation consequences of dealing in exchange-traded derivatives depend upon whether the taxpayer trades in derivatives, is merely speculating in derivatives or is using derivatives to hedge against a particular exposure. Care must be taken, as a particular derivative transaction may have elements of more than one of the categories of trading, speculating or hedging or there may be other considerations which are relevant in determining the taxation consequences of dealing in a particular derivatives contract. Relevant factors include the purpose of the taxpayer in entering into the derivative contract transaction, whether the taxpayer is involved in business or commerce, the taxpayer's overall activities and the place the particular futures contract has in relation to those activities and the economic nature of the transactions.

**Please note that Bell Commodities does not provide taxation advice and that investors must consult their own taxation adviser in relation to the tax consequences of trading in Exchange-traded Derivatives.**

## 9. COOLING-OFF ARRANGEMENTS

There are no cooling-off arrangements for exchange-traded derivative contracts.

## 10. OTHER INFORMATION AVAILABLE

The internet provides an accessible source of exchange-traded derivative information, which should be reviewed by Clients in respect of markets they intend trading. Contract specifications and initial margin requirements are published, together with general market reports, operating rules, pricing information and clearing arrangements. In addition, exchanges such as SFE and ASX publish educational material and explanatory guidelines for listed products. The following websites are available for general access. Clients unable to access the internet are able to request information from their Adviser.

Sydney Futures Exchange (SFE)	<a href="http://www.sfe.com.au">http://www.sfe.com.au</a>
Australian Stock Exchange (ASX)	<a href="http://asx.com.au">http://asx.com.au</a>
Chicago Mercantile Exchange (CME)	<a href="http://www.cme.com">http://www.cme.com</a>
Chicago Board of Trade (CBOT)	<a href="http://www.cbot.com">http://www.cbot.com</a>
New York Board of Trade (NYBOT)	<a href="http://www.nybot.com">http://www.nybot.com</a>
Chicago Board of Options Exchange (CBOE)	<a href="http://www.cboe.com">http://www.cboe.com</a>
Philadelphia Stock Exchange (PHLX)	<a href="http://phlx.com">http://phlx.com</a>
New York Mercantile Exchange (NYMEX)	<a href="http://www.nymex.com">http://www.nymex.com</a>
Kansas City Board of Trade (KCBT)	<a href="http://kcbt.com">http://kcbt.com</a>
Minneapolis Grain Exchange (MGE)	<a href="http://www.mgex.com">http://www.mgex.com</a>
Montreal Exchange (ME)	<a href="http://www.me.org">http://www.me.org</a>
Winnipeg Commodity Exchange (WCE)	<a href="http://www.wce.ca">http://www.wce.ca</a>
Euronext	<a href="http://www.euronext.com">http://www.euronext.com</a>
Eurex	<a href="http://www.eurexexchange.com">http://www.eurexexchange.com</a>
London International Financial Futures Exchange (LIFFE)	<a href="http://www.liffe.com">http://www.liffe.com</a>
London Metal Exchange (LME)	<a href="http://www.lme.co.uk">http://www.lme.co.uk</a>
International Petroleum Exchange (IPE)	<a href="http://www.theice.com">http://www.theice.com</a>
Singapore Exchange (SGX)	<a href="http://www.sgx.com">http://www.sgx.com</a>
Hong Kong Exchange (HKEX)	<a href="http://www.sehk.com.hk">http://www.sehk.com.hk</a>
Tokyo International Financial Futures Exchange	<a href="http://www.tfx.co.jp">http://www.tfx.co.jp</a>

Note: Should you wish to trade products listed on an exchange not shown, contact your Adviser to ascertain further details.

## 11. OTHER CONSIDERATIONS

Exchange-traded derivative contracts can be traded on Australian and overseas exchanges.

### Off-Market Trading - Block Trade Facility (BTF)

The SFE offers a BTF for SPI 200 Futures contracts. The BTF is an entirely off-market ie. non-SYCOM® - trading facility, enabling SFE Participants to bilaterally arrange large volume transactions away from the SYCOM® market that might have otherwise negatively impacted normal market quality. Once fully negotiated, the initiating party registers the trade into SFE via SYCOM®'s text messaging facility.

For further information in relation to the benefits and features of the Block Trade Facility, you are referred to the SFE website at: [www.sfe.com.au/index.asp?dispage=/site/html/trading/products/intro.asp](http://www.sfe.com.au/index.asp?dispage=/site/html/trading/products/intro.asp)

### Exchange for Physical (EFP)

The SFE and ASX also provide an EFP facility for further flexibility in the management of price risk. An EFP allows a futures position to be exchanged for a physical position in the underlying market at a price negotiated between the counterparties. EFPs provide a mechanism to:

- swap from a futures contract to a physical position or vice versa
- obtain off market price certainty for large physical versus futures transactions
- Fulfill delivery commitments

The physical and futures components must be 'substantially similar' and equal in terms of either:

- value (ie. the value of the physical being similar to the value of the futures); or by
- quantity (the quantity of the physical being similar to the quantity of the futures)

In addition, the Client must be in a position to supply to Bell Commodities the full details of the underlying physical transaction, including documentary evidence, which apply to any EFP transaction.

For further information in relation to the benefits and features of EFPs, you are referred to the SFE website at: [www.sfe.com.au/index.asp?dispage=/site/html/trading/products/intro.asp](http://www.sfe.com.au/index.asp?dispage=/site/html/trading/products/intro.asp)

# Glossary of Terms

Below is a list of some words used in this PDS and their meanings.

## **American Style Option**

An option which is capable of exercise at the Exercise Price at any time up to the Expiry Date.

## **Approved Securities**

In the case of the SFE, approved securities as defined in the Operating Rules of the SFE.

## **ASIC**

Australian Securities & Investments Commission.

## **Call Option**

An option where the buyer of the option has the option to buy the underlying asset from the seller (granter) of the option at the Exercise Price on the Expiry Date.

## **Clearing**

The process by which futures contracts and options executed on a Futures Exchange are registered and cleared in the name of a Clearing Participant with the relevant Clearing House.

## **Clearing House**

- a. generally a "Clearing House" including the SFE Clearing Corporation Pty Ltd (ACN 050 615 864) or any other body or corporation appointed by the SFE to act as a Clearing House for the SFE;
- b. any Clearing House or clearing facility from time to time operating in or authorised or appointed by any Market on which a broker may trade.

In practical terms, a Clearing House is a body that guarantees the fulfillment between Clearing Participants of all futures contracts and futures options are traded on the relevant Futures Exchange. The Clearing House holds all Initial and Variation margin requirements of the Clearing Participants who have to cover their commitment with the Clearing Participants on a day to day basis. The Clearing House handles all cash settlement within the exchange market and provides the documentation necessary to record all business on the relevant Futures Exchange.

## **Clearing Participant**

Any corporation, body or person that is a party to a clearing arrangement with a Clearing House.

## **Client Money Rules**

The provisions in Part 7.8 of the Corporations Act and the Corporations Regulations made under those provisions that specify the manner in which financial services licensees are to deal with Client monies and property.

The Operating Rules of the Futures Exchange upon which the relevant dealings take place which specify the manner in which the Participant is to deal with Client moneys and property.

## **Corporations Act**

The Corporations Act 2001 of the Commonwealth of Australia, as amended from time to time or if the Corporations Act 2001 should be repealed or cease to any extent to operate, then that legislation that is enforced in the State of New South Wales or any other State or Territory as the case may be from time to time in partial or complete substitution for the Corporations Act 2001 and references to specific provisions of the Corporations Act 2001 are to be construed as references to the provisions of that replacement legislation.

## **Derivatives**

A futures contract or futures option traded on a Futures Exchange.

## **Exercise Price**

The price at which a Buyer shall purchase or sell the underlying Futures Contract upon the exercise of an Option Contract.

## **Expiry Date**

In relation to a Futures Option, the date on which the option expires as designated in the contract specifications.

## **Futures Exchange**

The SFE, ASX or other recognised Derivatives Exchange.

# Glossary of Terms

## **Futures Law**

- a. Chapters 7 and 10 of the Corporations Act and the regulations made under those Chapters to the extent that they apply;
- b. any law of a nature similar to the Corporations Act and the regulations made under the Corporations Act applicable to any Market which governs the activity of that Market and any Futures Exchange or Clearing House forming part of such market in a manner similar to that in which the Corporations Act is intended to govern the activities of the SFE.

## **Good 'til Cancelled (GTC)**

An instruction that the order does not expire at the end of the trading day, although it normally terminates at the end of the trading month.

## **Initial Margin**

The amount that a Client should have in the Account to establish a position in a futures contract.

## **Limit Order**

An order to buy or sell a specified amount of a futures contract at a specified price or better.

## **Long**

A bought position in a futures contract.

## **Margin Call**

A demand for additional funds to be deposited in an account to meet margin requirements because of adverse price movements.

## **Market Order**

An order to buy or sell a futures contract immediately at the current price.

## **Market On Open Order**

An order to buy or sell a futures contract at the best available price at the beginning of the trading session.

## **Market On Close Order**

An order to buy or sell a futures contract at the best available price in the closing minutes of the trading session.

## **Operating Rules**

- a. the rules, regulations and by-laws made by the SFE or contained in the constitution of the SFE that deal with the activities and conduct of the SFE and its members, the activities and conduct of each Clearing House for the SFE and the activities and conduct of other persons in relation to each Market conducted by the SFE; and
- b. in relation to any other Market, Futures Exchange or Clearing House, the articles, constitution, rules, by-laws, regulations, customs and practices of that Market, Futures Exchange and Clearing House.

## **Option Premium**

The purchase price paid to buy an option.

## **Put Option**

An option where the buyer has the right to sell the underlying asset to the seller (granter) of the option at the Exercise Price and the Expiry Date.

## **SFE**

Sydney Futures Exchange Limited.

## **Short**

A sold position in a futures contract.

## **Strike Price**

Another word for the Exercise Price.

## **Variation Margin**

The difference between the value of a futures contract when it is initially bought or sold and its value marked to market at any given time.

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