

# product disclosure statement

FUTURES - PART 1

AFSL 230563

Date: 19 July 2007

**MF** Global<sup>SM</sup>



## PART 1 - PRODUCT DISCLOSURE STATEMENT

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### IMPORTANT INFORMATION

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This document is Part 1 of a Product Disclosure Statement (PDS) prepared by MF Global Australia Limited (MFGA) and must be read in conjunction with Part 2 (the product supplement) of the PDS. Together they make up the PDS for this product.

This PDS is important and should be read in its entirety. Before making a decision in relation to the financial product described in Part 2 of this PDS, you must determine whether these products are suitable for you. Some of the significant risks associated with the dealing in these products are explained in Part 2 of this PDS. Part 2 of this PDS contains other important information about the costs of the product and the significant characteristics, features and benefits of the product.

The information in this PDS is subject to change from time to time and is up to date as at 19 July 2007. To the extent that the change is not materially adverse to customers, we may update it by posting a notice of the change on our website. A paper copy of any updated information will be given to you without charge on request. We may also issue a supplementary PDS with new information. This PDS (and any supplementary PDS) is available in paper form and in electronic form from our website at [www.mfglobal.com.au](http://www.mfglobal.com.au) or you can call (02) 8273 8822.

The distribution of this PDS may be restricted in certain jurisdictions outside Australia. Persons into whose possession this PDS comes are required to inform themselves of, and to observe such restrictions. This PDS does not constitute an offer or solicitation to anyone in any jurisdiction in which such offer is not authorised or to any person to whom it is unlawful to make such offer or solicitation.

### ABOUT MFGA

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MF Global Australia Limited (MFGA) ABN 50 001 662 077 is the holder of an Australian Financial Services Licence # 230563.

MFGA is a subsidiary of the broker, MF Global Ltd, which can trace its origins back 200 years and is today one of the world's largest futures broking organisations. The group employs over 1,000 people in 15 countries, with key centres in London, Chicago, Hong Kong, New York, Paris, Singapore, Sydney and Taipei.

MFGA is a trading participant of both the Sydney Futures Exchange (SFE) and the Australian Securities Exchange (ASX) and a clearing participant of their respective clearing and settlement facilities, SFE Clearing Corporation Pty Limited (SFE Clearing) and Australian Clearing House Pty Limited (ACH) and ASX Settlement and Transfer Corporation Pty Limited (ASTC).

MFGA's registered office in Australia is located at:

Level 21, Grosvenor Place  
225 George Street,  
Sydney NSW 2000.

Telephone: (02) 8273 8822

Facsimile: (02) 9247 3765

Mail: PO Box N699  
Grosvenor Place NSW 1220

Internet: [www.mfglobal.com.au](http://www.mfglobal.com.au)

Email: [sydney@mfglobal.com.au](mailto:sydney@mfglobal.com.au)

Office locations are:

Sydney Level 21, 225 George Street  
Sydney NSW 2000

Brisbane Level 27, 1 Eagle Street  
Brisbane QLD 4000

### ACCOUNT ADMINISTRATION

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#### Opening an account at MFGA

Before you begin dealing through MFGA, you must complete, sign and return the Client Agreement booklet and then have your account approved by MFGA.

The Client Agreement booklet requires you to disclose personal information. You should refer to the Privacy Statement contained within this PDS which explains how MFGA collects personal information and then maintains, uses and discloses that information.

The minimum account opening deposit for a retail account is A\$10,000 though this amount may be varied at MFGA's discretion.

#### Client funds

All money paid to MFGA by you or a person acting on behalf of you, or which is received by MFGA on behalf of you, will be held by MFGA in one or more segregated accounts in accordance with Australian Corporations Act requirements.

It is important to note that holding your money in one or more segregated accounts may not afford you absolute protection. The purpose of segregated accounts is to separate client funds from those of MFGA's. Within the segregated account, all client funds are pooled together and so an individual client balance may not be protected if there is a default in the overall segregated account balance. In order to minimise this risk, MFGA would normally deposit

## PART 1 - PRODUCT DISCLOSURE STATEMENT

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their own company funds into the segregated funds account to cover any client balance shortfall caused by a client default.

MFGA does not accept from, or make payment to, third parties and we remind you that MFGA reports, where necessary, all transactions in compliance with Australian money laundering provisions as regulated by AUSTRAC.

MFGA is entitled to retain any interest it earns on client money held by MFGA in the segregated accounts it maintains with a bank, approved deposit-taking institution and/or Exchange clearing house. The rate of interest is determined by those organisations.

### **Foreign exchange conversions**

If you instruct MFGA to effect a transaction denominated in a foreign currency (for example a transaction on an overseas market), MFGA may need to convert Australian dollars it receives from you into foreign currency to meet the obligations arising in respect of the transaction. Similarly, if you are resident overseas and instruct MFGA to effect a transaction denominated in Australian dollars, MFGA may need to convert the foreign currency into Australian dollars. These conversion requirements may involve the entry into foreign exchange contracts within the meaning of the Corporations Act. MFGA is authorised under its Australian Financial Services Licence to provide this service.

Dealing in foreign currency related transactions can expose you to foreign exchange risks between the time the transaction is entered into and the time the relevant conversion of currencies occurs. Foreign exchange markets can change rapidly. Exchange rates depend on a number of factors including for example, interest rates, currency supply and demand and actions of government. In some situations, exchanges of currency may be suspended. There is always operational risk in a foreign exchange transaction. For example, disruptions in our operational processes such as communications, computers and computer networks, or external events may lead to delays in the execution and settlement of a transaction. You should have regard to these risks when considering transactions involving financial products described in Part 2 of this PDS.

### **How you can instruct us and your obligations**

We will accept order instructions via telephone, e-mail or facsimile. You must check and confirm with us that orders sent via facsimile or e-mail have in fact been received by us. You must review any confirmation or statement we send to you immediately upon receipt to ensure its accuracy and report any discrepancies to us.

### **Issue of client trading statements and confirmations**

MFGA will issue the daily trading statements/ confirmations and month-end summary statements to clients by either electronic format (if so requested by client), facsimile transmission and or standard mail.

### **MFGA administration charges**

MFGA will charge for the following administration services where requested by you or your representative;

- duplicate account statements
- copies of taped conversations
- transcripts of taped conversations
- returned cheque fees
- bank confirmations / audit certificates

## **PRIVACY**

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Your privacy is important to us.

The personal data that we collect from you will only be used by us to assist in the planning of marketing proposals, education seminars, risk assessment calculations and the provision of general product advice.

Our full privacy policy is available from our website ([www.mfglobal.com.au](http://www.mfglobal.com.au)).

## **DISPUTE RESOLUTION**

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MFGA has a formalised client complaint resolution procedure. All complaints are reviewed and investigated by the Compliance Manager based in Sydney. If you make a complaint, our first response will be to contact you to discuss the complaint and to register a formal record of such complaint. We will try to resolve your complaint quickly and fairly. If, despite our best efforts, you believe your complaint has not been satisfactorily dealt with, we offer clients the use of an independent industry arbiter, namely, the Financial Industry Complaints Service (FICS). MFGA has agreed not to contest a final resolution from FICS.

You can contact FICS by writing to:  
Financial Industry Complaints Service  
PO Box 579 Collins Street West  
Melbourne VIC 8007  
Toll Free: 1300 780 808  
Facsimile: (03) 9621 2291  
Website: [www.fics.asn.au](http://www.fics.asn.au)

## **ETHICAL CONSIDERATIONS**

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We do not take labour standards, or environmental, social or ethical considerations into account when offering our products.

# product disclosure statement

FUTURES - PART 2

AFSL 230563

Date: 19 July 2007

**MF** Global<sup>SM</sup>

This document is Part 2 of a Product Disclosure Statement (PDS) prepared by MF Global Australia Limited (MFGA) and must be read in conjunction with Part 1 of the PDS. Together they make up the PDS for this product.

## 1. INTRODUCTION

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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 (and some stock exchanges which offer derivative products). We deal in derivatives traded on a number of exchanges, including for example, Sydney Futures Exchange (**SFE**), Australian Securities Exchange (**ASX**), the Chicago Board of Trade (**CBOT**), London International Financial Futures Exchange (**LIFFE**). Details of these exchanges are available at their respective internet websites (refer section 10 below).

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

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Under the Corporations Act, where MFGA enters into an exchange traded derivative on a client's behalf, MFGA is regarded as issuing the derivative to the client. MFGA's contact details are set out in Part 1 of this PDS.

## 3. BENEFITS OF FUTURES AND OPTIONS CONTRACTS

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### 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, i.e. 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 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 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 derivatives 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>.

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

2. These people are known as hedgers.

3. 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.

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 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**

Exchange traded derivatives like futures contracts and options contracts 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 Australian exchanges, SFE and ASX, derivatives contracts are quoted and traded on electronic trading systems which provide a system of continuous price discovery. This means that the price at which trades take place may continually change throughout a trading session.

Another consequence of exchange traded derivative contracts being fungible is that the obligations under a contract can be effectively cancelled by entering into a new contract in the same contract series, but in an opposite position. This process is known as offsetting or closing out the contract. For example, a client who holds a derivatives contract to buy may cancel this obligation by taking a new contract to sell in the same month. 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.

### **The role of the Clearing House**

Exchange traded derivatives entered into on a derivatives exchange are cleared through a clearing house appointed by the relevant exchange to perform that role. In this document a reference to the **Clearing House** is a reference to the relevant clearing house. Participants of the relevant exchange must comply with the operating rules of the exchange. Participants who clear the derivatives contracts must also comply with the operating rules of the Clearing House (**Clearing Rules**).

MFGA is a participant of SFE and its clearing house, SFE Clearing Corporation Pty Limited (**SFE Clearing**). MFGA is also a participant of ASX and its clearing house, Australian Clearing House Pty Limited (**ACH**). Both SFE Clearing and ACH are licensed clearing and settlement facilities under the Corporations Act.

All exchange traded derivative contracts traded for you by MFGA will be cleared by the relevant Clearing House, subject to the relevant Clearing Rules.

When we enter into an exchange traded derivative contract for you, the transaction is reported to the Clearing House for registration. On registration of a contract, the original traded contract is terminated and replaced by two contracts (which we refer to as **open contracts**)<sup>6</sup>. One of those is between the Clearing Participant who clears the contract for the buyer of the contract and the Clearing House. The other is between the Clearing Participant who clears the contract for the seller of the contract and the Clearing House. This process of registration and creation of two open contracts is known as “novation”.

You, as the client, are not party to either of those open contracts. Although we may act on your instructions or for your benefit, the operating rules of the Australian exchanges provide that any contract arising from an order submitted to the market for an exchange traded derivative is regarded as having been entered into by us as principal. Upon registration of the contract with the Clearing House in our name as the Clearing Participant, we incur obligations to the Clearing House as principal, even though the trade may have been entered into on your instructions.

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4. 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.

5. Other than volume and contract month.

6. In the Clearing Rules of SFE Clearing, these are referred to as Open Positions. In the Clearing Rules of ACH, they are referred to as Derivatives CCP Contracts.

### Closing-out

The system of novation of transactions to a Clearing House means that closing-out can be achieved without reference to the original party with whom the derivatives contract was traded. The Clearing House stands between the buying and selling brokers (or, where applicable, their clearing participants). The Clearing House is, in effect, 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 margin (refer discussion below under the heading “margin”).

### Exchange Traded Futures Options

Option contracts traded over futures contracts are 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>8</sup> is the right, not the obligation, to enter into a futures contract<sup>9</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>10</sup> at the exercise price of the futures option if the option is validly exercised. Like futures contracts, options are standardised so that having entered into an option position it is possible to close that position out later.

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. If an exchange traded option is exercised it results in making or taking delivery of the actual commodity or instrument underlying the option, or making a cash adjustment based on a change in the price of the commodity or instrument 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

Options may be American or European style exercise. *European style* options can only be exercised on the expiry date, not before. *American style* options 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. Therefore, the seller<sup>11</sup> of an option must be prepared for that option to be exercised any time before the expiry date.

### Call and put options

A call option is an option to buy the underlying thing at the exercise price<sup>12</sup> at any time on before the expiry date (depending on the exercise style of the option).

A put option is an option to sell the underlying thing at the exercise price. In the context of a futures option, the buyer of a call option has the right to enter into a bought position in the underlying futures contract at the exercise price. The buyer of a put option has the right to enter into a sold position in the underlying futures contract at the exercise price. Each put or call option has a buyer and a seller.

### Option Premium

As noted above, the only term of an exchange traded derivative which is not set and pre-determined by the relevant exchange is the price of the contract. The price, known as the “**premium**” is negotiated between the buyer and seller of the contract through the market.

The value of an option will fluctuate during the option's life depending on a range of factors including the exercise price or level, the price of the underlying thing or the level of the underlying index, the volatility of the underlying thing or the underlying index, the time remaining to expiry date, interest rates, dividends and general risks applicable to markets.

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7. This simplified example has ignored transaction costs that are normally payable.

8. Whether it is a call option or put option.

9. Bought in the case of a call option, and sold in the case of a put option.

10. Sold in the case of a call option, and bought in the case of a put option, for futures options traded on the SFE.

11. Also known as the option writer or grantor of the option.

12. Also known as the exercise price or strike price.

## PART 2 – PRODUCT SUPPLEMENT

Most option pricing involves the use of a mathematical formula which includes calculating the intrinsic and time value of the particular option. You can obtain current price information by contacting us. In relation to some of the exchanges on which we deal, you may also find current pricing information on the website referred to in section 10.

### Exercising call and put futures 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	
Bought call option ->	Bought futures (at the exercise price of the option)
Bought put option ->	Sold futures (at the exercise price of the option)
Seller	
Sold call 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. Similarly for further information concerning derivatives contracts traded on ASX, you can visit the ASX website referred to in section 10.

## 4. SIGNIFICANT 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:

- **Loss of margin:** You could sustain a total loss of the initial margin that you deposit with your broker to establish or maintain a derivatives contract.
- **Payment of variation margin:** 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.

- **Movement in the underlying market:** Exchange traded derivatives are subject to movements in the underlying market. In the case of options, they may fall in price or become worthless at or before expiry.

- **Placing orders in moving market:** The placing of contingent orders (such as a 'stop-loss' order)<sup>13</sup> may not always limit your losses to the amounts that you may want. Market conditions may make it impossible to execute such orders.

- **Liquidity:** 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.

- **Strategies:** A "spread" position is not necessarily less risky than a simple "long" or "short" position<sup>14</sup>.

- **Leverage:** 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.

- **Options risk profile:** If you propose to trade in 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.

- **Options have limited life:** Options have a limited life span as their value erodes as the option reaches its expiry date. It is therefore important to ensure that the option selected meets your investment objectives.

- **Exchange and Clearing House powers:**

The exchanges and their Clearing Houses have discretionary powers in relation to the market and the operation of the clearing facility. They may have a range of powers including for example, powers to suspend the market operation, or lift market suspension in options while the underlying is in trading halt if the circumstances are appropriate, restrict exercise, terminate an option position or substitute another underlying, impose position limits or exercise limits or terminate contracts - all to ensure fair and orderly markets are maintained as far as practicable. These actions can affect an investor's option positions.

13. Is an order that becomes a market order (and hence executed) when the derivatives market reaches the designated price.

14. 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.

• **Disputes:** Trades effected on the exchanges may be subject to dispute. When a trade is subject to a dispute the exchanges may have powers, in accordance with their rules, to request that brokers amend or cancel a trade, which will in turn result in the contract with the client being amended or cancelled. In some situations, the exchanges may also exercise powers to cancel or vary, or direct the cancellation or variation, of transactions.

• **Trade cancellations and variations:** Under our terms and conditions, we have the ability to amend or cancel the trade. This could cause you to suffer loss or increase your loss. A trade executed on your behalf can also be amended or cancelled even where the trade has been confirmed to you.

• **System disruption:** Trades effected on many exchanges, like SFE and ASX, are traded on an electronic trading platform and cleared through the relevant Clearing House, which also relies on electronic systems. As with all such electronic platforms and systems, they are subject to failure or temporary disruption. If the system fails or is interrupted we will have difficulties in executing all or part of your order according to your instructions. An investor's ability to recover certain losses in these circumstances will be limited given the limits of liability imposed by the exchanges and their Clearing Houses.

• **Our powers on default:** If you fail to pay, or provide security for, amounts payable to us or fail to perform any obligation under your contracts, we have extensive powers under our agreements with you to take steps to protect our position including, for example, the power to close out positions.

## 5. AMOUNTS PAYABLE

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### Commission

We charge commission on each exchange traded derivatives contract up to a maximum rate of A\$100 per contract side. This amount must be paid to us immediately upon execution of the trade and will be deducted from your account.

GST will be charged on all brokerage and fees at the rate of 10%.

### Exchange and Clearing House fees

Exchanges and Clearing Houses charges / fees are charged at cost and will be passed onto the client at time of trade execution and/or settlement and are deducted direct from the client trading / settlement account.

### Margins

As noted above, the Clearing House contracts with clearing participants such as MFGA as principals. Where a clearing participant has an exposure under an open exchange traded derivative contract to the Clearing House, the Clearing House will call amounts of money known as **margin** from the clearing participant as cover. Margins are generally a feature of all exchange traded derivative products and are designed to protect the Clearing House against default. A margin is the amount calculated by the Clearing House as necessary to cover the risk of financial loss on an open exchange traded derivative contract due to an adverse market movement. The Clearing Houses calculate margin amounts using computerised systems which take into account a range of variables. Amounts of margin are determined daily by the Clearing House, following the close of trading each day. In times of extreme volatility an intra day margin call may be made by the Clearing House.

You should visit the websites of the relevant exchanges and clearing houses referred to in section 10 below for further details of the relevant margining requirements applicable to them.

We will, under the terms of our agreement with you, call from you all amounts of margin which the Clearing House calls from us in respect of positions which we have entered into for you.

The total margin called by the Clearing House for exchange traded derivative contracts is generally made up of two components, known as **initial margins** and **variation margins**, described as follows:

- *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.

- *Variation margin* is determined by reference to the market value of the particular position at the close of business each day. In other words, each contract is effectively marked to market on at least a daily basis.

**Timing and amounts of margin payments**

As a clearing participant of both ACH and SFE Clearing, we are required under their respective 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 relevant exchange. MFGA is entitled to call a higher initial margin than the minimum set by the Clearing House or relevant exchange. Liability for initial margin occurs at the time we execute the transaction for you, but you must pay the amount to us before any trading is conducted on your behalf.

Under the operating rules of SFE Clearing and ACH, we are not obliged to call our 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 the client’s total initial margin liability<sup>15</sup>. 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 us on the client.

Initial and variation margin must be paid immediately<sup>16</sup>. If a client does not pay a margin, MFGA is entitled to close out your position and deduct the resulting realised loss from the initial margin. If the realised loss exceeds the initial margin you are required to pay the excess to MFGA. Derivatives markets can be highly volatile and you should ensure that you are always contactable by us. If you are unable to be contacted for the purpose of MFGA communicating the call, then MFGA may close out your derivatives contracts without actually speaking to you. In some circumstances we may accept from you property as security for your margin obligations to us.

**Liability**

The liability of a client under an exchange traded derivatives contract is not limited to the initial margin paid 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 covering 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 (plus transaction costs). 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 table above equally applies when trading options.

**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>17</sup> should be aware that the chance of such an option becoming profitable is ordinarily remote.

15. Requirements concerning contracts traded on other futures exchanges will vary.

16. 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.

17. 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.

## 6. OTHER SIGNIFICANT CHARACTERISTICS OF EXCHANGE TRADED 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 jurisdiction

None of the Australian Securities and Investments Commission (**ASIC**), the SFE or ASX regulates 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 and the SFE and ASX operating rules. In particular, clients' funds may not have the same protection as funds deposited in Australia in a broker's Clients' Segregated Account.

To the extent required by the Corporations Act and the relevant rules of ASX and SFE, MFGA will deposit into a Clients' Segregated Account money paid to MFGA in connection with your dealings in financial product. You waive any interest on funds deposited with us, unless any written agreement between us 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 our Clients' Segregated Account, you acknowledge 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 MFGA's Clients' Segregated Account. Such a default may arise from any clients' trading;
- assets in the Clients' Segregated Account belonging to non-defaulting clients are potentially at risk, even though they did not cause the default;
- MFGA 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 you have a deliverable derivative 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. It is MFGA's policy not to permit speculators to make or take delivery under a deliverable derivative contract (except where required by the Clearing House). If you wish to make or take delivery you must first obtain our consent.

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 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>18</sup> is more complex. In respect of the SFE futures options, all in-the-money<sup>19</sup> or at-the-money<sup>20</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. You should check this with us 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 a range of exchanges the procedures can vary widely.

18. A futures option is an option over an exchange traded option or a cash settled contract.

19. 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.

20. Is a put or call option with an exercise price equal to the price of the subject matter of the option.

### **Regulatory bodies**

You may incur losses that are caused by matters outside our 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 you suffering a loss.

### **Market disruptions / emergencies**

A market disruption may mean you are unable to deal in a derivatives contract when desired, resulting in you suffering a loss. 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.

## **8. TAXATION IMPLICATIONS**

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It is important to note that your tax position when trading exchange traded derivatives will depend on your individual circumstances and you should consult your own taxation adviser before making any decisions to trade.

The taxation consequences of trading in exchange traded derivatives 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 as discussed below. Given that we do not offer taxation advice, you should discuss any taxation issues with your tax adviser before entering or disposing of an exchange traded derivatives.

This PDS does not cover every aspect of taxation as it relates to exchange traded derivatives. The information below acts as a summary of significant taxation considerations that should be considered by you before investing in exchange traded derivatives:

- ATO rulings need to be considered;
- Are you classified as a trader, speculator or hedger as different tax treatments may apply to each classification depending on your trading strategy;
- Does revenue hedging or capital hedging apply to you;
- The ATO position in relation to avoidance strategies and the generation of tax losses;
- There may be issues in relation to opening an option position in one year and closing it in the next year.

## **9. COOLING-OFF ARRANGEMENTS**

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There are no cooling-off arrangements for exchange traded derivatives offered by MFGA and covered by this PDS.

## **10. OTHER INFORMATION AVAILABLE**

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As noted above, MFGA deals in exchange traded derivatives which are able to be traded on a number of exchanges, the main ones of which are listed below and a link to these exchanges can be found on the MFGA website:

ASE - American Stock Exchange  
ASX - Australian Securities Exchange  
CBOE - Chicago Board Options Exchange  
CBOT - Chicago Board of Trade  
CME - Chicago Mercantile Exchange  
Consiglio Di Borsa (Italian Stock Exchange Council)  
DTB - Deutsche Terminborse  
EUREX - European Derivatives Market  
HKFE - Hong Kong Exchanges & Clearing Limited  
JSE - Johannesburg Stock Exchange  
KBOT - Kansas City Board of Trade  
KOFEX - Korea Futures Exchange  
LIFFE - London International Financial Futures Exchange  
MATIF - French Futures & Options Exchange  
MEFF - Spanish Financial Futures & Options Exchange  
MACE - Mid America Commodity Exchange  
MGEX - Minneapolis Grain Exchange  
MX - Montreal Exchange  
NASDAQ  
NBOT - New York Board of Trade  
NYMEX - New York Mercantile Exchange  
OM - Stockholm  
OME - Osaka Mercantile Exchange  
OSE - Osaka Securities Exchange  
SAFEX - South Africa Futures Exchange  
SGX - Singapore Exchange  
SFE - Sydney Futures Exchange  
TGE - Tokyo Grain Exchange  
WCE - Winnipeg Commodity Exchange

You should refer to these websites for informational material, details of contracts available for trading, contract specifications, operating rules, pricing information and clearing arrangements. If you are unable to access these websites, please contact us and we will endeavour to make the relevant information available to you through other means.

## 11. OTHER CONSIDERATIONS

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### **Ability to trade**

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.

Further information in relation to the benefits and features of the BTF can be found on the SFE's website.

### **Exchange for Physical (EFP)**

Both ASX and SFE 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
- off market price certainty for large physical versus futures transactions
- fulfil 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)

Further information in relation to the benefits and features of EFP's on SFE can be found on the SFE's website.





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