

# Foreign Exchange Sold Call Option

## Supplementary Product Disclosure Statement

### 28 September 2009

This Supplementary Product Disclosure Statement ('SPDS') is dated 28 September 2009 and is issued by Westpac Banking Corporation (ABN 33 007 457 141 AFSL No. 233714). It supplements the Foreign Exchange Sold Call Option Product Disclosure Statement dated 9 February 2004 ('Original PDS'). This SPDS should be read with the Original PDS – together they make up the Product Disclosure Statement ('PDS'). In particular, terms defined in the Original PDS have the same meaning in the SPDS, unless the context requires otherwise. For further information, please contact the relevant state dealing desk using the contact details listed below or visit [www.westpac.com.au](http://www.westpac.com.au)

#### From 28 September 2009 we have made the changes set out below to the Original PDS.

This SPDS amends the Original PDS by replacing the text in certain sections of the Original PDS as set out in the table below:

Relevant page number of the Original PDS	Relevant section title of the Original PDS	Replacement text
10	<b>Dispute resolution</b>	<p>The following text replaces the text under the section titled "Dispute resolution":</p> <p><b>"Getting your complaint heard</b></p> <p>Sometimes you may want to talk about problems you are having with us. Fixing these problems is very important to us.</p> <p>We've put in place ways of dealing with your issues quickly and fairly.</p> <p><b>Please talk to us first</b></p> <p>We aim to resolve your complaint at your first point of contact with us in a timeframe agreed with you. This is our 'Ask Once' promise. So please raise your complaint with any of the people handling your banking. Alternatively, you can contact us by phone or in writing using the details listed at the back of this PDS.</p> <p><b>What to do if you are still unhappy</b></p> <p>If we haven't been able to deal with your issues to your satisfaction, there are a number of other bodies you can go to. Our external dispute resolution provider is the Financial Ombudsman Service, our membership number is 10999 and the contact details are:</p> <p>Financial Ombudsman Service  GPO Box 3  Melbourne VIC 3001  Phone 1300 780 808  Fax: (03) 9613 6399  Internet: <a href="http://www.fos.org.au">www.fos.org.au</a>  Email: <a href="mailto:info@fos.org.au">info@fos.org.au</a></p> <p>You can also contact the Australian Securities &amp; Investments Commission (ASIC) to make a complaint and to obtain further information about your rights. They have a freecall Infoline on 1300 300 630 and e-mail contact address at <a href="mailto:infoline@asic.gov.au">infoline@asic.gov.au</a>"</p>
12	<b>Westpac Banking Corporation contact details</b>	<p>The following text replaces the text under the section titled "Westpac Banking Corporation contact details":</p> <p><b>"Queensland and Northern Territory:</b></p> <p>Level 14, 260 Queen Street  Brisbane QLD 4000  Telephone (07) 3227 2155</p>

		<p><b>Western Australia:</b></p> <p>Level 16, 109 St Georges Terrace Perth WA 6000 Telephone (08) 9426 2522</p> <p><b>New South Wales and ACT:</b></p> <p>Level 2, 275 Kent Street Sydney NSW 2000 Telephone (02) 8204 2822</p> <p><b>Victoria, South Australia and Tasmania:</b></p> <p>Level 9, 360 Collins Street Melbourne VIC 3000 Telephone (03) 9608 3950"</p>
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This SPDS amends the Original PDS by adding a new section to the Original PDS as set out in the table below:

Relevant page number of the Original PDS	New section title added to the Original PDS	New text added to the Original PDS
11	<b>Anti-Money Laundering</b>	<p>After the section titled "Dispute resolution" a new section titled "Anti-Money Laundering" is added. The following text is added to the new "Anti-Money Laundering" section:</p> <p>"Please be advised that in order for Westpac to meet its regulatory and compliance obligations relating to anti-money laundering and counter terrorism financing, we will be increasing the levels of control and monitoring we perform.</p> <p>You should be aware that:</p> <ul style="list-style-type: none"> <li>• transactions may be delayed, blocked or refused where we have reasonable grounds to believe that they breach Australian law or the law of any other country;</li> <li>• where legally obliged to do so, we may disclose the information gathered to regulatory and/or law enforcement agencies.</li> </ul> <p>Upon entering into any Foreign Exchange Sold Call Option with Westpac, you agree:</p> <ul style="list-style-type: none"> <li>• you are not and will not enter into any agreement with Westpac under an assumed name;</li> <li>• any funds used by you to enter into an agreement with Westpac have not been derived from or related to any criminal activities;</li> <li>• any payments received from Westpac will not be used in relation to any criminal activities;</li> <li>• if we ask, you will provide us with additional information we reasonably require from you; and</li> <li>• we may obtain information about you or any beneficial owner of an interest in an agreement with Westpac from third parties if we believe this is necessary to comply." </li></ul>

# Foreign Exchange Sold Call Option

## **Product Disclosure Statement**

This Product Disclosure Statement relates to Foreign Exchange Sold Call Options.

## **Issuer**

Westpac Banking Corporation ABN 33 007 457 141  
Australian Financial Services Licence Number: 233714



Institutional Bank

A division of Westpac Banking Corporation ABN 33 007 457 141

# Foreign Exchange Sold Call Option

## Product Disclosure Statement

A Product Disclosure Statement is an information document. The purpose of a Product Disclosure Statement is to provide you with enough information to allow you to make an informed decision about a product's suitability for your needs. A Product Disclosure Statement is also a tool for comparing the features of other products you may be considering. If you have any questions about this product, please contact us on any of the numbers listed at the back of this Product Disclosure Statement.

### Important information

This Product Disclosure Statement is issued by Westpac Banking Corporation and is current as at 9th February 2004. The information in it is subject to change. Westpac will provide updated information by issuing a supplementary or replacement Product Disclosure Statement (if this were required, such as if the change were materially adverse to you) or by posting the information on our web site. You can get a paper copy of any updated information without charge by calling us.

This Product Disclosure Statement is intended for retail clients in Australia only. Distribution of it in jurisdictions outside Australia may be restricted by law and, persons who come into possession of it, who are not in Australia, should seek advice. If you are in Australia and have received it electronically, we will give you a paper copy on request, without charge. To obtain a copy, refer to the contact details listed on the back page of this Product Disclosure Statement.

The information set out in this document is general in nature. It has been prepared without taking into account your objectives, financial situation or needs. Because of this, you should, before acting on this information, consider its appropriateness, having regard to your objectives, financial situation and needs. By providing this Product Disclosure Statement, Westpac does not intend to provide financial advice or any financial recommendations. You should read and consider this Product Disclosure Statement, in its entirety, carefully and seek independent expert advice before making a decision about whether or not this product is suitable for you.

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Institutional Bank

# Foreign Exchange Sold Call Option

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## Issuer

Westpac Banking Corporation (**Westpac, we or us**).

## Purpose

### What is a Foreign Exchange Sold Call Option?

A Foreign Exchange Sold Call Option (**Sold Call Option**) is an income-generating product for customers who are carrying out transactions using foreign currency.

### What are Sold Call Options used for?

A Sold Call Option is a product used to generate income in the form of a one off premium. You earn the premium by selling a Sold Call Option to Westpac. Under a Sold Call Option you grant Westpac the right to buy foreign currency from you at an agreed price at some time in the future. In return, Westpac pays you a premium.

A Sold Call Option is **not** designed to provide protection against movements in the relevant currency.

## Suitability

### Do I have sufficient knowledge about this product?

This product will only be suitable if you have a good understanding of foreign exchange markets and the way that option products work. In particular, if Westpac exercises the option you need to understand how it will affect you financially. Westpac will not take your position into account when deciding whether or not to exercise the option.

If Westpac chooses not to exercise the option there will be no exchange of currencies. For this reason, selling a Sold Call Option is **not suitable** for an investor who needs to have a particular currency exchanged at a known rate at a particular date in the future.

If you are not confident about your understanding of these things, this product may not be suitable for you and we strongly suggest you seek independent advice before making a decision about this product.

## Description

### What does a Sold Call Option do? / What am I selling?

A Sold Call Option is an agreement between the seller (you) and the buyer of the Sold Call Option (Westpac). You receive a premium for selling a Sold Call Option to Westpac. When you sell Westpac a Sold Call Option, you grant Westpac the right, but not the obligation, to buy from you an agreed amount of one currency with another nominated currency at an agreed price (the **strike price**). Westpac will exercise the option if the applicable market foreign exchange rate is less favourable to us than the strike price.

The two currencies in a Sold Call Option are referred to as the currency pair.

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### **European or American style?**

A Sold Call Option is structured so that Westpac can exercise the option:

- at a specified future date, generally referred to as the expiry date (**European style** option); or
- at anytime up to and including the expiry date (**American style** option).

### **What variables can I change?**

You may nominate the strike price, the expiry date, the currency pair and amount, and the style of option. The currency pair you nominate must be acceptable to Westpac. Please ask for further details.

### **What do I receive?**

Westpac pays you an option premium for your Sold Call Option. We calculate the premium we are prepared to pay for each Sold Call Option on a transaction by transaction basis.

### **What important factors affect the premium at any point of time?**

To calculate the premium, Westpac takes into account several factors including:

- the strike price
- the expiry date
- current market exchange rates
- volatility of the underlying currency at that time, and
- prevailing interest rates of the countries whose currency is being exchanged

### **When do I receive this premium?**

We will advise you about the premium we are prepared to pay before entering into a Sold Call Option. The premium can be paid in either Australian Dollars or in one of the currencies in the currency pair. Premiums are generally payable within two business days of entering into the transaction.

### **Are there any Westpac credit requirements?**

Before entering into a Sold Call Option, Westpac will assess your financial position to determine whether or not your situation satisfies our normal credit requirements. Westpac will advise you of the outcome as soon as possible.

If your application is successful, you will need to sign Westpac's standard finance documentation. That documentation sets out the terms of the credit approval and other matters relevant to your application.

## **Cost of product**

### **Cost of product**

You do not pay Westpac any fees or charges when you sell a Sold Call Option to Westpac. However, you should be fully aware of, and comfortable with, the potential financial costs to you if the option is exercised. You should make sure you fully understand the financial implications of the option that you are considering selling.

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## Advantages/benefits

### Advantages/benefits

- Sold Call Options provide up-front premium income.
- Sold Call Options are flexible. The strike price, the expiry date and amount can be tailored to suit your needs.
- Sold Call Options can be terminated before their expiry date, giving you the ability to eliminate your exposure if desired (however, there is likely to be a cost to you in doing so - see the Early termination section for details).
- You know how much premium you will receive when you enter the Sold Call Option.

## Disadvantages/risks

### Disadvantages/risks

- If Westpac exercises the Sold Call Option, you must deliver your currency to Westpac at the strike price. This will be less favourable to you than the current market exchange rate.
- If the option is exercised and you do not have the currency you are required to deliver, you will need to purchase it in order to meet your obligations under the Sold Call Option. As the exchange rate at which you purchase that currency will be less favourable than the strike price of the option, this will result in a loss to you. This loss is potentially unlimited.
- A Sold Call Option is not designed to provide protection against a movement in the relevant currency. The benefit of the product is limited to the premium received.
- Early termination may result in costs to you. Those costs may be higher than the premium you received for the Sold Call Option.
- There is no cooling off period. Once you have sold an option, you are bound by its terms.
- We generally have performance obligations under all the financial markets products we enter into. Customers depend on us to perform our obligations. Our ability to do so is linked to our financial wellbeing. This type of risk is commonly referred to as **credit or counterparty risk**. As we are a regulated Australian bank, the risk of us failing to perform is very low.

## Settlement

### When could Westpac exercise my Sold Call Option?

For European style Sold Call Options, there are two possible scenarios on the expiry date:

1. If the currency pair exchange rate is less favourable to us than the strike price, Westpac will exercise your Sold Call Option. You must then exchange your currency for the other nominated currency at the strike price two business days after the expiry date.
2. If the currency pair exchange rate is more favourable to us than the strike price, Westpac will allow the Sold Call Option to lapse. That is because the current market rate of exchange for the currency pair will provide Westpac with a better rate for exchanging its currency.

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The above scenarios also apply to American style options, except that Westpac can exercise the Sold Call Option at any time up to and including the expiry date, and not just on the expiry date. You must then exchange currencies at the strike price two business days after the Sold Put Option is exercised. Westpac will only exercise your Sold Call Option if the currency pair market exchange rate is less favourable to us than the pre-determined strike price.

**What happens when an option is exercised?**

Westpac will inform you whether or not we intend to exercise the option before expiry.

If Westpac exercises the option, settlement will occur on the value date, that is two business days after the expiry date (for European style options) or two business days after the exercise date (for American style options). On this date, you must deliver your currency to Westpac. You can provide foreign currency either by telegraphic transfer or by transferring funds from a foreign currency account/deposit. Australian dollars must be provided in clear funds. When we receive the funds, we will deposit any amounts owing to you into a Westpac bank account (in your name) denominated in the relevant currency. Alternative arrangements can be made with Westpac's agreement.

**Early termination**

**Can I terminate the option before expiry?**

You may ask us to terminate the Sold Call Option at any time up to the expiry date. Westpac will then provide you with a quote for cancelling the option.

**What will be the value of the option on early termination?**

Our quote will incorporate the same variables (strike price, currency, amount and expiry date) used when pricing the original option. These will be adjusted for prevailing market rates over the remaining term of the option.

We will also need to consider the cost of reversing or off-setting your original transaction. When doing this, Westpac takes into account the current market rates that apply to any such off-setting transactions.

**What happens if I accept?**

If you accept the quote, we will cancel the option. You should appreciate that you may lose money as a result of early termination.

**Documentation**

**Documentation**

The documentation required for all option transactions will be either:

- a standard set of Westpac terms and conditions that applies to all option transactions that you enter into with us; or
- an industry standard master dealing agreement that applies to all option transactions that you enter into with us. This agreement can also be used to cover dealings in other types of derivative products. You will need to sign and return this agreement.

We will advise you which of these we require, based on what is most suitable for you.

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Each of the above documents governs the dealing relationship between you and us and set out the terms and conditions that apply to all transactions that we enter into with you. In particular, they document the situations where those transactions can be terminated and the way the amount payable following termination is calculated.

You can ask for copies of these documents and we strongly recommend that you fully consider their terms before entering into any transaction. You should obtain independent advice if you do not understand any aspect of the documents.

### **Confirmation**

Shortly after entering into a Sold Call Option, Westpac will send you a confirmation outlining the commercial terms of the transaction. You will need to sign this confirmation and return it to Westpac.

### **Warning**

It is extremely important that you check the confirmation to make sure that it accurately records the terms of the transaction. In the case of a discrepancy, you will need to raise the matter with your Westpac representative as a matter of urgency.

## **Example**

### **Example**

The examples below are indicative only and use rates and figures we have selected to demonstrate how the product works. In order to assess the merits of any particular option, you will need to use the actual rates and figures quoted to you at the relevant time. Note that the calculations below include rounding of decimal places.

### **Scenario**

Assume you are an Australian based importer due to pay 100,000 United States dollars (USD) in 3 months' time for goods purchased overseas. At that time, you will need to convert your Australian dollars (AUD) into USD. Also assume the current AUD/USD exchange rate is 0.6450.

### **If I do nothing, what exchange rate risks do I face?**

If you do nothing, the amount of AUD you will pay in 3 months' time for your underlying exposure will depend on the exchange rate at that particular time.

If the AUD/USD exchange rate goes up, the USD will become less valuable and, as a consequence, you will require fewer AUD to pay for the USD. Assume in this example that the AUD/USD exchange rate rises to 0.6700, then you will pay:

$$\text{AUD } 149,253.73 \quad ( = \text{USD } 100,000 / 0.6700 )$$

If the AUD/USD exchange rate goes down, the opposite occurs and you will need to pay more in AUD. If we assume the AUD/USD exchange rate falls to 0.6200 then you will pay:

$$\text{AUD } 161,290.32 \quad ( = \text{USD } 100,000 / 0.6200 )$$

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### **How will the AUD Sold Call Option change this?**

Assume you enter into a European style Sold Call Option with an agreed strike price of 0.6500 and receive a premium of AUD 3,500. Also assume that this premium is set aside and is not used to buffer or offset any of your foreign exchange obligations.

If the AUD/USD exchange rate goes down, and the resulting exchange rate is below the strike price, Westpac will allow your option to lapse and, at expiry, you will convert your AUD into USD 100,000 at the prevailing market exchange rate (for example 0.6450) and pay:

$$\text{AUD } 155,038.76 \quad ( = \text{USD } 100,000 / 0.6450 )$$

This leaves you in exactly the same position as you would have been if you had not entered into the option transaction. The Sold Call does not protect you against movements in the AUD and you continue to have an unlimited risk in respect of your underlying exposure when the AUD weakens.

If, however, the AUD/USD exchange rate goes up, (for example to 0.6700) and the resulting exchange rate is above the strike price of 0.6500, Westpac will exercise the option and you will be required to pay:

$$\text{AUD } 153,846.15 \quad ( = \text{USD } 100,000 / 0.6500 )$$

Your obligation to exchange at the strike price means that you forfeit the opportunity to participate in the benefits of a stronger currency. In the graph below, this is shown as a horizontal line to the right of the strike price and highlights the additional risk associated with selling call options. In short, you have traded away the benefits of a stronger AUD for the receipt of an up front premium. At expiry, you will be worse off if the prevailing exchange rate is greater than the strike price.

### **What benefit does the premium provide?**

If you use the option premium received to help offset your foreign exchange obligations, you create a protective buffer against losses. This protection is restricted to the amount of premium received for the Sold Call Option and as such provides limited benefit.

In the example, if the AUD/USD exchange rate trades to 0.6450, adjusted for the option premium received, your overall payment will be:

$$\text{AUD } 151,538.76 \quad ( = \text{AUD } 155,038.76 - \text{AUD } 3,500 )$$

which equates to an effective exchange rate of:

$$0.6599 \quad ( = \text{USD } 100,000 / \text{AUD } 151,538.76 ).$$

If the AUD/USD exchange rate trades up to 0.6700, Westpac will exercise your option at the 0.6500 strike price and your overall payment, adjusted for the option premium received, will be:

$$\text{AUD } 150,346.15 \quad ( = \text{AUD } 153,846.15 - \text{AUD } 3,500 )$$

which equates to an effective exchange rate of:

$$0.6651 \quad (= \text{USD } 100,000 / \text{AUD } 150,346.15)$$

It is important to stress that the option premium only reduces a portion of the losses and as such this buffer provides a limited benefit.

Furthermore, the effective exchange rate is not the rate at which the currencies will actually be exchanged at maturity. Rather, the effective rate is the prevailing exchange rate adjusted to reflect the amount of premium received.

**At what exchange rate(s) will the buffer be completely eroded?**

The extent of the protective buffer can be translated into a range of exchange rates that extend either side of the strike price.

The lower limit of the buffer is defined where the loss on your underlying position (due to a weaker AUD) exactly matches the premium benefit received. At and below this point, all the premium benefit has been consumed and losses accumulate if the AUD continues to weaken:

$$0.6355 \quad (= \text{USD } 100,000 / \text{AUD } 157,346.15)$$

If however the AUD strengthens and Westpac exercises your Sold Call, you must exchange AUD at the strike price. Adjusted for the premium received, your net payment will be:

$$\text{AUD } 150,346.15 \quad (= \text{AUD } 153,846.15 - \text{AUD } 3,500)$$

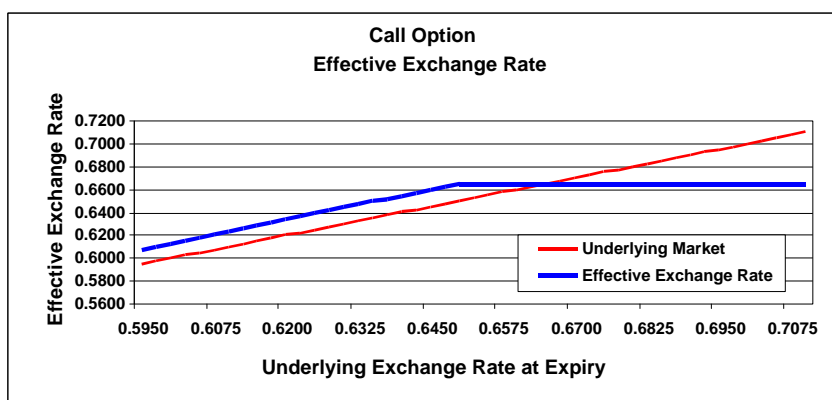
and so the upper bound (or upper breakeven) exchange rate of the buffer becomes:

$$0.6651 \quad (= \text{USD } 100,000 / \text{AUD } 150,346.15)$$

In short, the benefit derived from the AUD 3,500 premium is completely eroded if the AUD/USD exchange rate trades either below 0.6355 or above 0.6651. Beyond this range:

- you face unlimited losses if the AUD continues to weaken or
- an unlimited opportunity cost if the AUD continues to strengthen

The graph below charts the effective exchange rate at expiry if you overlaid a Sold Call Option and included the premium benefit:



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## Taxation

### Taxation

Taxation law is complex and its application will depend on a person's individual circumstances. When determining whether or not this product is suitable for you, you should consider the impact it will have on your own taxation position and seek professional advice on the tax implications it may have for you.

## Telephone conversations

### Telephone conversations

The terms of a Sold Call Option are usually agreed verbally over the telephone. Once we have reached an agreement, both you and Westpac are bound by the terms of the Sold Call Option.

Conversations with our dealing room and settlement departments are taped. This is standard market practice. We do this to make sure that we have complete records of the details of all transactions. Taped conversations are retained for a limited period and are usually used where there is a dispute and for staff monitoring purposes.

You will need to advise our dealer if you do not wish to be recorded. However, we will not enter into any transaction over the telephone unless the conversation is recorded.

## Factors that may influence our advice

### Factors that may influence our advice

This document has been designed to help you choose the right product for your needs. When you ask for a recommendation, please be assured that our staff members will always explain your choices and suggest a suitable product.

Sometimes our staff may be eligible for incentives, including cash incentives, for achieving or exceeding sales targets.

## Code of Banking Practice compliance

### Code of Banking Practice compliance

The Code of Banking Practice is a voluntary code for banks dealing with individuals and small businesses. Its purpose is to set standards of good banking practice for banks to follow when dealing with these customers. Copies of the Code are available on request.

If you are a retail client, each relevant provision of the Code will apply to this product from the date we adopt that provision. If you would like to discuss whether or not the Code will apply to you, please contact Westpac on the numbers set out at the back of this document.

## Privacy and confidentiality compliance

### Privacy and confidentiality compliance

Westpac's Privacy Policy explains our commitment to the protection of your personal information. You may obtain a copy of our Privacy Policy by:

- calling Telephone Banking (on 132 032)
- contacting any of our branches
- visiting our web site at [www.westpac.com.au](http://www.westpac.com.au)

In addition to Westpac's duties under legislation, it has a general duty of confidentiality towards you, except:

- 
- when disclosure is compelled by law
  - where there is a duty to the public to disclose
  - where the interests of Westpac require disclosure
  - where disclosure is made with your express or implied consent

## Dispute resolution

### Dispute resolution

Problem resolution is a priority for us. We have established complaint resolution procedures that aim to deal with complaints quickly and fairly. Our complaint handling procedures are in accordance with the Australian Standard on Complaints Handling. This service is free and covers verbal and written complaints.

If you have a complaint about this product, its operation or the service that we are providing, please contact us. Your first point of contact should be your Westpac representative.

We will aim to resolve the matter when you first contact us. If we cannot resolve your issue there and then, we will commit to taking the following steps:

- Step 1 - Let you know who is handling the complaint.
- Step 2 - Keep you informed of what is happening.
- Step 3 - Aim to resolve your complaint within 5 working days.

Once your complaint has been resolved, we will check with you to make sure you are satisfied with how your complaint was handled.

If you feel your complaint has not been properly handled or resolved, we invite you to contact our Customer Advocate on 1300 301 977 for a further review. The Customer Advocate's role is to understand and represent your interests within Westpac and help us ensure you have the best possible experience.

If you remain dissatisfied with the outcome, you can refer your complaint to either of the external organisations listed below.

The Finance Industry Complaints Service Limited  
PO Box 579  
Collins Street West  
Melbourne VIC 8007  
Phone 1300 780 808  
Fax: +61 3 9621 2291  
Internet: <http://www.fics.asn.au/>

Australian Banking and Financial Services Ombudsman Ltd  
GPO Box 3A  
Melbourne VIC 3001  
Phone 1300 780 808  
Fax: +61 3 9613 7345  
Internet: <http://www.abio.org.au>

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The Australian Securities and Investments Commission also has a free call Infoline on 1300 300 630. You can use this number to make a complaint and to obtain further information about your rights.

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**Westpac Banking  
Corporation contact  
details**

Queensland and Northern Territory:

Financial Markets  
Queensland  
Level 15 260 Queen Street  
Brisbane QLD 4000  
Telephone (07) 3227 2155

Western Australia:

Financial Markets  
Western Australia  
Level 14 109 St Georges Terrace  
Perth WA 6000  
Telephone (08) 9426 2522

New South Wales and ACT:

Financial Markets  
New South Wales  
Level 5 255 Elizabeth Street  
Sydney NSW 2000  
Telephone (02) 9284 8422

Victoria, South Australia and Tasmania:

Financial Markets  
Victoria  
Level 9 360 Collins Street  
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