

ASX CLEAR (FUTURES) DEFAULT MANAGEMENT PROCESS: HOUSE OTC & FUTURES POSITIONS

Clearing Participant default

ASXCLF convenes Default Management Group for the OTC portfolio of defaulting participant

DMG advises, and is consulted by, ASXCLF on Hedge, Transact and Auction steps for OTC Default Management below

ASXCLF will use all reasonable commercial endeavours to agree a common position with the DMG and must explain its reasons if it does not follow DMG recommendations

Terminate

ASXCLF may terminate the defaulting participant's OTC open contracts and portfolio margined futures contracts.

Termination allows ASXCLF to crystallise the value of the unperformed obligations under the open contracts with the defaulting participant. It does not affect the open contracts with non-defaulting participants

On this page:
Red means OTC default management
Blue means Futures default management
Green is in common to both

ASXCLF may enter into new futures contracts to close them out against defaulting participant's futures contracts which are not portfolio margined.

Hedge

ASXCLF may enter into hedging transactions to hedge the effects of terminated contracts.

ASXCLF may request that one or more participating members of the DMG assist with the execution of the hedging transactions.

Transact

ASXCLF may agree with a non-defaulting participant for the transfer of equivalent contracts to those terminated, as an alternative to auction

ASXCLF may do this against recommendation of DMG only if it does not result in application of commitment of non-defaulting participants.

Auction

One or more auctions to establish new open contracts equivalent to the terminated contracts or the hedging transactions. The auctions are conducted on identically composed units of the transactions within "Liquidation Groups" for each transaction type. If the standard auction format applies, then the highest valid bid will win (subject to acceptance by ASXCLF and any reserve price which is set by ASXCLF).

Auction participation is required for non-defaulting OTC participants which, at the time of the default, have at least one OTC open contract of the type being auctioned. An OTC participant's OTC Commitment is subject to 'juniorisation' if it was required to participate in an auction and did not submit a bid.

Results of auction

If auction succeeds then auctioned transactions are established against payment of the winning auction price together with any applicable variation margin.

If auction fails then ASXCLF can hold a further auction or take such other action it determines is appropriate. ASXCLF cannot force allocate positions to non-defaulting participants

If close-out not possible then ASXCLF consults with Risk Committee before any decision is taken to invoke compulsory settlement.

If no other means of protecting ASXCLF position, ASXCLF may compulsorily settle remaining positions. (to be reviewed with recovery/resolution discussions)

Losses

ASXCLF calculates termination value with respect to terminated transactions (see next slide).

The termination value and other amounts owing by the defaulting participant (including OTC auction costs and any loss/gain on close-out of non-portfolio margined futures) are aggregated and netted. The defaulting participant's remaining margin is applied to meet net amount owing.

Remaining losses met in accordance with loss allocation waterfall, including participants' commitments. However, non-defaulting participants have no obligation to replenish commitments. Also, there is no variation margin haircutting.

ASXCLF will continue to discuss appropriate recovery and resolution mechanisms with stakeholders.

Close-out

Consultation

Compulsory settlement

Losses

ASX CLEAR (FUTURES) DEFAULT MANAGEMENT PROCESS: CALCULATION OF TERMINATION VALUE FOR TERMINATED TRANSACTIONS

Timing related to default management



Source of exposure of ASXCLF to defaulting participant



Factors in the value of the that exposure

