



# ASX OTC RULEBOOK

<b>1</b>	<b>SCOPE AND INTERPRETATION .....</b>	<b>6</b>
1.1	ASX Clear (Futures), OTC Rules and OTC Clearing .....	6
1.2	Futures Rules and their application .....	6
1.3	Meanings of terms.....	7
1.4	OTC Handbook.....	7
1.5	OTC Participants.....	7
1.6	OTC Transactions and OTC Transaction Type .....	7
1.7	OTC Open Contract .....	7
1.8	OTC Open Position .....	7
1.9	OTC Terms .....	7
1.10	Interpretation.....	8
1.11	Number .....	8
1.12	Headings.....	8
1.13	Signpost: Good standing.....	9
<b>2</b>	<b>PARTICIPATION AND GENERAL.....</b>	<b>9</b>
2.1	Signpost to related Futures Rules .....	9
2.2	Becoming an OTC Participant.....	9
2.3	Conditions to become an OTC Participant .....	10
2.4	Application to be an OTC Participant .....	10
2.5	Approval of application.....	11
2.6	Fees and OTC Commitment .....	11
2.7	Conditions on authorisation.....	11
2.8	Limitations on authorisation.....	11
2.9	Fees 12	
2.10	Relationship with ASX Clear (Futures) .....	12
2.11	Variations to OTC Handbook .....	12
2.12	Termination of OTC Clearing service .....	12
2.13	Obligations of OTC Participant prior to termination.....	13
2.14	Access arrangements and trade authorisation .....	13
2.15	Client Sub-Accounts.....	14
<b>3</b>	<b>COMMITMENTS AND FINANCIAL REQUIREMENTS .....</b>	<b>14</b>
3.1	Signpost to related Futures Rules .....	14
3.2	OTC Commitment.....	14
3.3	Financial Requirements of OTC Participants.....	14
<b>4</b>	<b>REGISTRATION.....</b>	<b>15</b>
4.1	Signpost to related Futures Rules .....	15

4.2	OTC Participants and OTC Participant Related Entities .....	15
4.3	Submission of OTC Transactions .....	16
4.4	Reliance on correctness .....	17
4.5	Acceptance for registration .....	17
4.6	Creation of OTC Open Contracts .....	18
4.7	Incorrectly registered OTC Transactions .....	18
4.8	Authoritative Record .....	19
4.9	Performance of OTC Open Contracts .....	19
4.10	Trade amendment and cancellation .....	19
4.11	Backloading .....	19
4.12	Transfer of OTC Open Contracts .....	20
4.13	OTC Portfolio Compression .....	22
4.14	Netting of OTC Open Contracts .....	22
<b>5</b>	<b>ACCOUNTS AND MARGIN .....</b>	<b>22</b>
5.1	Signpost to related Futures Rules .....	22
5.2	Transfer of OTC Initial Margin .....	23
5.3	Securities as OTC Initial Margin .....	23
5.4	Change of OTC Initial Margin obligations .....	23
5.5	Portfolio Margining .....	24
5.6	OTC Intra-day Margin and OTC Extra Margin .....	24
5.7	OTC Daily Closing Value .....	25
5.8	OTC Daily Variation Margin .....	25
5.9	Price Alignment Interest .....	25
5.10	Excess Margin .....	25
5.11	Errors, corrections and related disputes .....	26
<b>6</b>	<b>DEFAULT .....</b>	<b>26</b>
6.1	Signpost to related Futures Rules .....	26
6.2	Default management process .....	26
6.3	Default and Defaulted OTC Participants .....	27
6.4	Events of Default .....	28
6.5	Terminable Open Contracts .....	29
6.6	Termination and Terminated Open Contracts .....	29
6.7	Termination Value .....	30
6.8	Combination and Allocation in default management process .....	30
6.9	Application of OTC Initial Margin and all other amounts .....	31
6.10	Information Sharing .....	32
6.11	Advice and Assistance .....	32
<b>7</b>	<b>EMERGENCIES AND FORCE MAJEURE .....</b>	<b>32</b>
7.1	Signpost to related Futures Rules .....	32
<b>8</b>	<b>MISCELLANEOUS .....</b>	<b>32</b>
8.1	Signpost to related Futures Rules .....	32
8.2	Payments by OTC Participants .....	32
8.3	Payments by ASX Clear (Futures) .....	33
8.4	Interest on overdue amounts .....	33
8.5	Discretion in exercising rights .....	33
8.6	Consents .....	34
8.7	Partial exercising of rights .....	34
8.8	No liability for loss .....	34

8.9	Remedies cumulative .....	34
8.10	When ASX Clear (Futures) taken to have performed its obligations .....	34
8.11	OTC Participant to have e-mail .....	34
8.12	Governing law .....	34
<b>9</b>	<b>CLIENT PROTECTION MODEL PROVISIONS .....</b>	<b>35</b>
<b>10</b>	<b>SECURITY INTEREST PROVISIONS .....</b>	<b>35</b>
	<b>Schedule 1 – Relationship with Futures Rules .....</b>	<b>36</b>
	<b>Schedule 2 – OTC Commitment .....</b>	<b>43</b>
1	OTC Commitment .....	43
2	Fixed OTC Commitment .....	43
3	Variable OTC Commitment .....	43
4	Transitional Arrangements .....	45
5	New OTC Participants .....	46
	<b>Schedule 3 – Default Management Process .....</b>	<b>47</b>
1	Default Management Groups .....	47
2	DM Hedging Transactions and DM Hedging Transaction Costs .....	49
3	Independent DM Transactions .....	49
4	DM Auctions .....	50
5	Juniorisation .....	51
6	OTC Default Simulations .....	54
7	Information Regarding Default Management Process .....	54
<b>1</b>	<b><u>SCOPE AND INTERPRETATION .....</u></b>	<b><u>4</u></b>
1.1	<u>ASX Clear (Futures), OTC Rules and OTC Clearing .....</u>	<u>4</u>
1.2	<u>Futures Rules and their application .....</u>	<u>4</u>
1.3	<u>Meanings of terms .....</u>	<u>5</u>
1.4	<u>OTC Handbook .....</u>	<u>5</u>
1.5	<u>OTC Participants .....</u>	<u>5</u>
1.6	<u>OTC Transactions and OTC Transaction Type .....</u>	<u>5</u>
1.7	<u>OTC Open Contract .....</u>	<u>5</u>
1.8	<u>OTC Open Position .....</u>	<u>5</u>
1.9	<u>Re-bilateralisation .....</u>	<u>6</u>
1.10	<u>OTC Terms .....</u>	<u>6</u>
1.11	<u>Interpretation .....</u>	<u>6</u>
1.12	<u>Number .....</u>	<u>7</u>
1.13	<u>Headings .....</u>	<u>7</u>
1.14	<u>Signpost: Good standing .....</u>	<u>7</u>
<b>2</b>	<b><u>PARTICIPATION AND GENERAL .....</u></b>	<b><u>7</u></b>
2.1	<u>Signpost to related Futures Rules .....</u>	<u>7</u>
2.2	<u>Becoming an OTC Participant .....</u>	<u>8</u>
2.3	<u>Conditions to become an OTC Participant .....</u>	<u>8</u>
2.4	<u>Application to be an OTC Participant .....</u>	<u>9</u>
2.5	<u>Approval of application .....</u>	<u>9</u>
2.6	<u>Fees and OTC Commitment .....</u>	<u>9</u>
2.7	<u>Conditions on authorisation .....</u>	<u>10</u>
2.8	<u>Limitations on authorisation .....</u>	<u>10</u>

2.9	Fees	10
2.10	Relationship with ASX Clear (Futures)	10
2.11	Variations to OTC Handbook	11
2.12	Termination of OTC Clearing service	11
2.13	Obligations of OTC Participant prior to termination	11
2.14	Access arrangements and trade authorisation	12
2.15	Client Sub-Accounts	12
<b>3</b>	<b>COMMITMENTS AND FINANCIAL REQUIREMENTS</b>	<b>12</b>
3.1	Signpost to related Futures Rules	12
3.2	OTC Commitment	13
3.3	Financial Requirements of OTC Participants	13
<b>4</b>	<b>REGISTRATION</b>	<b>14</b>
4.1	Signpost to related Futures Rules	14
4.2	OTC Participants and OTC Participant Related Entities	14
4.3	Submission of OTC Transactions	15
4.4	Reliance on correctness	16
4.5	Acceptance for registration	16
4.6	Creation of OTC Open Contracts	17
4.7	Incorrectly registered OTC Transactions	17
4.8	Authoritative Record	18
4.9	Performance of OTC Open Contracts	18
4.10	Trade amendment and cancellation	18
4.11	Backloading	18
4.12	Re-bilateralisation	18
4.13	Transfer of OTC Open Contracts	19
4.14	OTC Portfolio Compression	20
4.15	Netting of OTC Open Contracts	21
<b>5</b>	<b>ACCOUNTS AND MARGIN</b>	<b>21</b>
5.1	Signpost to related Futures Rules	21
5.2	Transfer of OTC Initial Margin	21
5.3	Securities as OTC Initial Margin	21
5.4	Change of OTC Initial Margin obligations	22
5.5	Portfolio Margining	22
5.6	OTC Intra-day Margin and OTC Extra Margin	23
5.7	OTC Daily Closing Value	23
5.8	OTC Daily Variation Margin	23
5.9	Price Alignment Interest	24
5.10	Excess Margin	24
5.11	Errors, corrections and related disputes	24
<b>6</b>	<b>DEFAULT</b>	<b>25</b>
6.1	Signpost to related Futures Rules	25
6.2	Default management process	25
6.3	Default and Defaulted OTC Participants	26
6.4	Events of Default	26
6.5	Terminable Open Contracts	28
6.6	Termination and Terminated Open Contracts	28
6.7	Termination Value	29
6.8	Combination and Allocation in default management process	29

6.9	Application of OTC Initial Margin and all other amounts	30
6.10	Information Sharing	31
6.11	Advice and Assistance	31
<b>7</b>	<b>EMERGENCIES AND FORCE MAJEURE</b>	<b>31</b>
7.1	Signpost to related Futures Rules	31
<b>8</b>	<b>MISCELLANEOUS</b>	<b>31</b>
8.1	Signpost to related Futures Rules	31
8.2	Payments by OTC Participants	31
8.3	Payments by ASX Clear (Futures)	32
8.4	Interest on overdue amounts	32
8.5	Discretion in exercising rights	33
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8.8	No liability for loss	33
8.9	Remedies cumulative	33
8.10	When ASX Clear (Futures) taken to have performed its obligations	33
8.11	OTC Participant to have e-mail	34
8.12	Governing law	34
<b>9</b>	<b>CLIENT PROTECTION MODEL PROVISIONS</b>	<b>34</b>
<b>10</b>	<b>SECURITY INTEREST PROVISIONS</b>	<b>34</b>
	<b>Schedule 1 – Relationship with Futures Rules</b>	<b>35</b>
	<b>Schedule 2 – OTC Commitment</b>	<b>42</b>
1	OTC Commitment	42
2	Fixed OTC Commitment	42
3	Variable OTC Commitment	42
4	Transitional Arrangements	44
5	New OTC Participants	45
	<b>Schedule 3 – Default Management Process</b>	<b>46</b>
1	Default Management Groups	46
2	DM Hedging Transactions and DM Hedging Transaction Costs	48
3	Independent DM Transactions	49
4	DM Auctions	49
5	Juniorisation	51
6	OTC Default Simulations	54
7	Information Regarding Default Management Process	54

# ASX OTC Rulebook

## 1 SCOPE AND INTERPRETATION

### 1.1 ASX Clear (Futures), OTC Rules and OTC Clearing

These rules are the ASX OTC Operating Rules of ASX Clear Futures Pty Limited. These rules are referred to as the **OTC Rules** and ASX Clear Futures Pty Limited is referred to as **ASX Clear (Futures)**.

ASX Clear (Futures) may provide clearing facilities for over-the-counter derivatives (referred to as **OTC Clearing**) in accordance with these OTC Rules.

### 1.2 Futures Rules and their application

These OTC Rules form part of:

- (a) the Operating Rules of ASX Clear (Futures), which are referred to as the **Futures Rules**; and
- (b) the contract constituted between ASX Clear (Futures) and Clearing Participants, and between each Clearing Participant, under the Futures Rules.

For the purpose of the Futures Rules, each “Futures Term” in the following table includes the corresponding “OTC Term” used in these OTC Rules:

<b>Futures Term</b>	<b>OTC Term</b>
Clearing Participants	OTC Participants
Market Contracts	OTC Transactions
Open Contracts	OTC Open Contracts
Open Position	OTC Open Position
Commitment	OTC Commitment
Initial Margin	OTC Initial Margin
Variation Margin	OTC Daily Variation Margin

Accordingly, unless these OTC Rules, (or the Futures Rules), specify otherwise, the provisions of the Futures Rules which apply to one of these Futures Terms also applies to OTC Clearing as if it referred to its corresponding OTC Term.

At the beginning of each OTC Rule a “signpost” provision has been included to specify to which Futures Rules that OTC Rule relates and the extent to which those Futures Rules apply to OTC Clearing. Where a signpost specifies that particular Futures Rules apply to OTC Clearing it means it applies as if it referred to its corresponding OTC Terms on the basis of the table set out above.

These OTC Rules prevail if they specify that a Futures Rule does not apply to OTC Clearing, or if these OTC Rules are inconsistent with, or vary, the Futures Rules. For clarity, Schedule 1 (Relationship with Futures Rules) to these OTC Rules sets

out a matrix showing which Futures Rules do not apply to OTC Clearing and OTC Open Contracts.

### 1.3 Meanings of terms

Unless they are defined in these OTC Rules (including in this OTC Rule 1 (Scope and Interpretation)), capitalised terms used in these OTC Rules have the meaning which they have in the Futures Rules.

### 1.4 OTC Handbook

The ASX OTC Handbook of ASX Clear (Futures) is referred to as the **OTC Handbook**. The OTC Handbook sets out the terms and procedures relating to OTC Clearing and other related matters. Each OTC Participant (on behalf of itself and, if applicable, its CPM Clients) undertakes to comply with the provisions of the OTC Handbook and a failure to do so is a contravention of these OTC Rules. However, the OTC Handbook does not form part of these OTC Rules or the Futures Rules. Also, these OTC Rules (and, if applicable, the Futures Rules) prevail in the event of any inconsistency between these OTC Rules and the OTC Handbook.

### 1.5 OTC Participants

A Clearing Participant who is authorised to clear OTC Transactions in accordance with these OTC Rules is referred to as an **OTC Participant**.

### 1.6 OTC Transactions and OTC Transaction Type

These OTC Rules govern the clearing of over-the-counter derivatives that meet the eligibility criteria set out in the OTC Handbook, which are referred to as **OTC Transactions**. The categories of OTC Transactions described in the OTC Handbook are referred to as **OTC Transaction Types**.

Each OTC Transaction must be an interest rate derivative denominated in Australian dollars or New Zealand dollars.

### 1.7 OTC Open Contract

The contract with ASX Clear (Futures) which is taken to arise from the registration of an OTC Transaction is referred to as an **OTC Open Contract**.

### 1.8 OTC Open Position

The entitlements and obligations held by an OTC Participant (on behalf of itself and, if applicable, its CPM Client) under an OTC Open Contract which have not been completed or Terminated (as described in OTC Rule 6 (Default)) are referred to as an **OTC Open Position**.

### 1.9 OTC Terms

The terms of OTC Open Contracts are referred to as the **OTC Terms** and are set out in the OTC Handbook.

## 1.10 Interpretation

Unless the contrary intention appears, in these OTC Rules:

- (a) a reference to a particular “OTC Rule” is a reference to that rule in these OTC Rules;
- (b) a reference to any thing (including an amount) is a reference to the whole and each part of it;
- (c) a reference to a document (including the Futures Rules, these OTC Rules and the OTC Handbook) includes any variation or replacement of it;
- (d) the word “law” includes common law, principles of equity, and laws made by parliament (and laws made by parliament include State, Territory and Commonwealth laws and regulations and other instruments under them, and consolidations, amendments, re-enactments or replacements of any of them);
- (e) a reference to Australian dollars, dollars, AUD, \$ or A\$ is a reference to the lawful currency of Australia;
- (f) a reference to a time of day is a reference to Sydney time;
- (g) the word “person” includes an individual, a firm, a body corporate, an unincorporated association and an authority;
- (h) a reference to a particular person includes the person’s executors, administrators, successors, substitutes (including persons taking by novation) and assigns;
- (i) the words “including”, “for example” or “such as” when introducing an example, do not limit the meaning of the words to which the example relates to that example or examples of a similar kind;
- (j) a reference to the Corporations Act is a reference to the *Corporations Act 2001* (Cwlth);
- (k) an expression in an OTC Rule which deals with a matter dealt with in a provision of the Corporations Act has the same meaning that it has in that provision of the Corporations Act; and
- (l) in the interpretation of an OTC Rule, a construction that would promote the purpose or object underlying the OTC Rules (whether that purpose or object is expressly stated in the OTC Rules or not) is to be preferred to a construction which would not promote that purpose or object.

## 1.11 Number

In these OTC Rules, the singular includes the plural and the plural includes the singular.

## 1.12 Headings

Headings (including those in brackets at the beginning of paragraphs) in these OTC Rules are for convenience only and do not affect the interpretation of these OTC Rules.

### **1.13 Signpost: Good standing**

For the purposes of these OTC Rules, and for the purposes of any OTC Participant, the provisions of Futures Rule 1.2 (Good Standing) apply.

## **2 PARTICIPATION AND GENERAL**

### **2.1 Signpost to related Futures Rules**

The OTC Rules in this OTC Rule 2 (Participation and General) relate to matters addressed in Part 2 (General) of the Futures Rules, other than Futures Rules 5 (Commitment to Support Obligations of ASX Clear (Futures)) to 8 (Financial Requirement) (to which OTC Rules 3 and 6 are related). Of these related Futures Rules the following Futures Rules apply to OTC Clearing, where relevant as supplemented and varied by these OTC Rules:

- 3.2 (Fees)
- 4 (Becoming a Clearing Participant), other than 4.3, 4.14(j)(v) and 4.14(ja) and (l)
- 9 (Position Limits)
- 9A (Regulation)
- 10 (Appointment of Board as Agent)
- 11 (Resignation and Change in Control)
- 12 (Appeals)
- 13 (Access to Records)
- 14 (Amendment to Rules)
- 16 (Use of Exchange System)
- 17 (Terms relating to Exchange Equipment)
- 18 (Terms relating to Both Licensed Software and Exchange Equipment)
- 19 (Miscellaneous)
- 20 (Risk Committee)

### **2.2 Becoming an OTC Participant**

To be an OTC Participant, an entity must be admitted as a Clearing Participant under the Futures Rules and authorised by ASX Clear (Futures) to participate in OTC Clearing in accordance with these OTC Rules. If an entity which was an OTC Participant ceases to be a Clearing Participant, then it also ceases to be an OTC Participant.

However, an OTC Participant need not be a Futures Participant as defined in the Futures Rules.

A Clearing Participant may apply for an authorisation to clear OTC Transactions, or certain OTC Transaction Types, in accordance with these OTC Rules. The application for this authorisation is referred to as an application to “become an OTC Participant”.

## 2.3 Conditions to become an OTC Participant

A Clearing Participant which satisfies the following conditions may apply to become an OTC Participant:

- (a) it is:
  - (i) either:
    - (A) an Australian Bank; or
    - (B) an Australian subsidiary of an Australian Bank,
 in each case, which is regulated by the Australian Prudential Regulation Authority in accordance with the *Banking Act 1959* (Cwlth) or is the holder of an appropriate (as determined by ASX Clear (Futures) in its sole discretion) Australian Financial Services Licence; or
  - (ii) the holder of an appropriate (as determined by ASX Clear (Futures) in its sole discretion) Australian Financial Services Licence, or a similar licence issued in a jurisdiction other than Australia, on the basis of which it is exempt from the requirement to hold an Australian Financial Services Licence; and
- (b) it meets the applicable Financial Requirements under OTC Rule 3.3 (Financial Requirements of OTC Participants); and
- (c) it can demonstrate to the satisfaction of ASX Clear (Futures) its ability to participate in the default management process maintained by ASX Clear (Futures) and referred to in OTC Rule 6.2 (Default management process), including participating in a DM Auction which includes both OTC Open Contracts and, if applicable, other Open Contracts of the Defaulted OTC Participant; and
- (d) if a Clearing Participant who applies to be an OTC Participant is not a Futures Participant, it must have in place arrangements (which may not be withdrawn without ASX Clear (Futures)' consent) for a Futures Participant to clear Market Contracts which the applicant acquires in any DM Auction. The applicant must provide evidence of these arrangements to ASX Clear (Futures) in form and substance satisfactory to ASX Clear (Futures); and
- (e) such other conditions as may be set out in the OTC Handbook.

In special circumstances to the satisfaction of ASX Clear (Futures), and with ASX Clear (Futures)' consent, a person not satisfying these requirements may apply to become an OTC Participant.

## 2.4 Application to be an OTC Participant

An applicant intending to become an OTC Participant must lodge with ASX Clear (Futures):

- (a) an application in the form required by ASX Clear (Futures) duly executed by the applicant;
- (b) such information and evidence concerning the applicant as ASX Clear (Futures) may require;
- (c) an undertaking by the applicant in the form required by ASX Clear (Futures) to abide by these OTC Rules, the OTC Handbook and the Futures Rules as varied from time to time;

- (d) an application fee of an amount determined by ASX Clear (Futures); and
- (e) such other documents, information or evidence as are set out in the OTC Handbook.

In considering an application to become an OTC Participant, ASX Clear (Futures) may request any information or evidence which it thinks fit.

## **2.5 Approval of application**

In its discretion ASX Clear (Futures) may approve an application where it:

- (a) is satisfied that the applicant meets the conditions in OTC Rule 2.3 (Conditions to become an OTC Participant); and
- (b) expects that the applicant will continue to meet all applicable admission and general conduct requirements for Clearing Participants under the Futures Rules.

These requirements are continuing and need to be satisfied for as long as the Clearing Participant is an OTC Participant.

The approval of ASX Clear (Futures) to authorise a Clearing Participant as an OTC Participant may be limited to a particular OTC Transaction Type.

## **2.6 Fees and OTC Commitment**

Any authorisation of a Clearing Participant as an OTC Participant does not take effect until the applicant has:

- (a) paid the fees as required by ASX Clear (Futures) in accordance with the OTC Handbook; and
- (b) provided its OTC Commitment to ASX Clear (Futures) in accordance with OTC Rule 3 (Commitments and Financial Requirements).

Unless these requirements are satisfied within two months of the date of the approval by ASX Clear (Futures) to authorise such Clearing Participant as an OTC Participant, or such further time as ASX Clear (Futures) may in its discretion allow, the approval lapses.

## **2.7 Conditions on authorisation**

In addition to the requirements set out in OTC Rule 2.5 (Approval of application) above, ASX Clear (Futures) may impose any additional conditions on an authorisation as an OTC Participant as it thinks fit from time to time. This may include limitations with respect to the OTC Transaction Types which an OTC Participant may clear.

At any time, if an OTC Participant does not comply, or is likely to not comply, with any of the conditions of its authorisation as an OTC Participant then it must notify ASX Clear (Futures) immediately.

## **2.8 Limitations on authorisation**

Authorisation as an OTC Participant is a privilege granted by ASX Clear (Futures) and may be withdrawn by ASX Clear (Futures) at any time. ASX Clear (Futures) will act reasonably and in good faith in deciding to withdraw the authorisation of an OTC Participant and will provide notice in writing to the OTC Participant outlining the reasons for the withdrawal of its authorisation under this OTC Rule.

An OTC Participant may not assign, charge, declare a trust in respect of, or otherwise deal with its rights or privileges under these OTC Rules. ASX Clear (Futures) is not required to recognise any purported interest of any person in the rights of an OTC Participant under these OTC Rules.

However, this OTC Rule 2.8 is subject to the Client Protection Model Provisions, to the extent to which they apply.

## **2.9 Fees**

ASX Clear (Futures) may impose different fees on an OTC Participant from those which are imposed on a Clearing Participant which is not an OTC Participant. Also, ASX Clear (Futures) may impose different fees on OTC Participants authorised to clear different OTC Transaction Types.

Each OTC Participant must pay the fees imposed on it on demand or at such other specified time. Fees which are due and payable under these OTC Rules or the Futures Rules for which payment has not been received by ASX Clear (Futures) by the due date may be deducted by ASX Clear (Futures) from any credit balance of the House Clearing Account of the OTC Participant.

## **2.10 Relationship with ASX Clear (Futures)**

Each OTC Participant deals with ASX Clear (Futures) under these OTC Rules and the Futures Rules as principal, not on behalf of any other person and not as trustee.

ASX Clear (Futures) need not recognise the interests of any person who claims to have an interest in the rights which an OTC Participant has against ASX Clear (Futures) and ASX Clear (Futures) is not responsible for the performance or liabilities of any OTC Participant to any person.

However, this OTC Rule 2.10 is subject to the Client Protection Model Provisions, to the extent to which they apply.

## **2.11 Variations to OTC Handbook**

ASX Clear (Futures) may vary or replace the OTC Handbook from time to time. Any such variation or replacement of the OTC Handbook will become effective at the time specified by ASX Clear (Futures). ASX Clear (Futures) agrees to notify in advance the OTC Participants of any such variation or replacement. The accidental omission to give notice under this provision to, or the non-receipt of notice under this provision by, any OTC Participant does not invalidate any variation or replacement.

## **2.12 Termination of OTC Clearing service**

If at any time ASX Clear (Futures) decides to cease providing the OTC Clearing service provided under these OTC Rules, it agrees to provide at least six months' notice to all OTC Participants in writing, and to all CPM Clients by notice on the ASX website, of the date on which the service will cease. However, this is not invalidated by any OTC Participant or CPM Client not receiving this notice.

ASX Clear (Futures) will consult with the Risk Committee regarding the process for the discontinuation of the OTC Clearing service in accordance with the Futures Rules.

If there are any OTC Open Contracts on the date for cessation of the service which has been notified by ASX Clear (Futures) then ASX Clear (Futures) may, at its sole discretion:

- (a) terminate any or all of such OTC Open Contracts and require them to be cash settled at a price determined by ASX Clear (Futures) by reference to the last determined OTC Daily Closing Value for such OTC Open Contracts; or
- (b) postpone the date of the cessation of the service until such time as ASX Clear (Futures) determines.

## 2.13 Obligations of OTC Participant prior to termination

The termination or suspension of a Clearing Participant or termination of its authorisation as an OTC Participant in respect of an OTC Transaction Type does not affect any accrued rights or obligations existing as between the OTC Participant (including those held on behalf of any CPM Client) and each of ASX Clear (Futures), a Related Body Corporate of ASX Clear (Futures), or other OTC Participants.

Without limiting the above, following the termination or suspension of a Clearing Participant or termination of its authorisation as an OTC Participant in respect of an OTC Transaction Type under these OTC Rules:

- (a) the OTC Rules continue to apply and ASX Clear (Futures) will continue to have jurisdiction in respect of the OTC Participant concerning any conduct or any failure to comply with the OTC Rules which occurred before the termination or suspension, whether that conduct or failure was by the OTC Participant or by any other person for whose conduct the OTC Participant was responsible;
- (b) the OTC Participant continues to be bound by any indemnity given by the OTC Participant under these OTC Rules or the Futures Rules; and
- (c) other Futures Rules and OTC Rules continue to apply in respect of the Participant to the extent required to give effect to paragraphs (a) and (b).

Without limiting the above, ASX Clear (Futures) is entitled to require any outstanding OTC Open Contract of the OTC Participant to be [transferred to another OTC Participant in accordance with OTC Rule 4.12 \(Transfer of OTC Open Contracts\)](#), [netted in accordance with OTC Rule 4.14 \(Netting of OTC Open Contracts\)](#) or a [combination of both](#) ~~removed in accordance with OTC Rule 4.12 (Re-bilateralisation)~~.

[\[Explanatory Note: the amendments to OTC Rule 2.13 are to account for the removal of the re-bilateralisation provisions, and expansion of the netting provisions in OTC Rule 4.14\]](#)

## 2.14 Access arrangements and trade authorisation

An OTC Participant must:

- (a) establish and maintain access arrangements for submission of messages to ASX Clear (Futures) via the Approved Trade Source System that meets the minimum standards set out in the OTC Handbook;
- (b) establish and maintain appropriate arrangements for internal authorisation of the submission of OTC Transactions for registration and requests to ~~re-bilateralise~~, cancel, amend or transfer OTC Open Contracts; and
- (c) sign an Attestation in the form set out in the OTC Handbook and lodge the signed Attestation with ASX Clear (Futures) within 3 months of the end of each calendar year.

## 2.15 Client Sub-Accounts

A Clearing Participant may hold Open Positions in respect of OTC Open Contracts in a Client Sub-Account only on behalf of CPM Clients which have been approved by ASX Clear (Futures) in accordance with the OTC Handbook.

In respect of each CPM Client, the Clearing Participant and CPM Client each represent that the CPM Client is a wholesale client (as defined under the Corporations Act) and also provide the representations which are set out in the OTC Handbook for the purposes of this OTC Rule.

Nothing in this OTC Rule limits Futures Rule 113.5.

## 3 COMMITMENTS AND FINANCIAL REQUIREMENTS

### 3.1 Signpost to related Futures Rules

These OTC Rules relate to matters which are addressed in Futures Rules:

- 5 (Commitment to Support Obligations of ASX Clear (Futures))
- 6 (Withdrawal of Clearing Participant Commitment)
- 8 (Financial Requirements)

These Futures Rules are applicable to OTC Clearing, as supplemented and varied by these OTC Rules.

### 3.2 OTC Commitment

OTC Participants must provide a commitment to the financial support of the obligations of ASX Clear Futures (**OTC Commitment**) in the form prescribed by ASX Clear (Futures) as set out in the OTC Handbook and as calculated in accordance with Schedule 2 (OTC Commitment).

The aggregate amount of OTC Commitment is one hundred million dollars (A\$100,000,000), subject to the transitional arrangements set out in Schedule 2 (OTC Commitment). The amount of OTC Commitment held by ASX Clear (Futures) may exceed the Aggregate OTC Commitment determined in accordance with Schedule 2 during a period where an OTC Participant is admitted but has not been previously included in the quarterly recalculation of OTC Commitment.

An OTC Participant that is also a Futures Participant must provide an additional Futures Commitment calculated in accordance with the Futures Rules.

### 3.3 Financial Requirements of OTC Participants

An OTC Participant must:

- (a) have:
  - (i) if it is an Australian Bank, a minimum Tier 1 capital of \$50,000,000; or
  - (ii) if it is not an Australian Bank, a minimum level of Net Tangible Assets equal to \$50,000,000. For this purpose, Net Tangible Assets has the same meaning as it has in the Futures Rules; and
- (b) lodge with ASX Clear (Futures) the following financial information:

- (i) if it is an Australian Bank, a quarterly capital statement of its Tier 1 capital in the form prescribed by ASX Clear (Futures); or
- (ii) if it is not an Australian Bank, the financial information required of a Clearing Participant in accordance with the Futures Rules; and
- (c) immediately advise ASX Clear (Futures) if any of the financial circumstances set out in the OTC Handbook occur in respect of the OTC Participant (if any such financial circumstances are set out in the OTC Handbook).

ASX Clear (Futures) may determine that the Financial Requirements of a particular OTC Participant are to exceed those specified above. ASX Clear (Futures) will make such a determination having regard to the number or value of OTC Open Contracts held by the OTC Participant, its assessment of the OTC Participant's risk under such OTC Open Contracts, the requirement of insurers or any other relevant factor. Where an OTC Participant is also a Futures Participant, ASX Clear (Futures) may also make such a determination having regard to both OTC Open Contracts and other Open Contracts. Any increased Financial Requirements determined by ASX Clear (Futures) apply to that OTC Participant until ASX Clear (Futures) determines otherwise.

An OTC Participant who is also a Futures Participant will only be required to comply with an amount equal to the greater of:

- (a) the Financial Requirements applicable to it as a Futures Participant; or
  - (b) the Financial Requirements applicable to it as an OTC Participant,
- unless otherwise provided under this OTC Rule 3.3.

## 4 REGISTRATION

### 4.1 Signpost to related Futures Rules

These OTC Rules relate to matters which are addressed in Part 3 (Registration of Market Contracts and Obligations of ASX Clear (Futures)) of the Futures Rules. Accordingly, Part 3 of the Futures Rules (except Futures Rules 31.8 and 34) does not apply to OTC Clearing.

### 4.2 OTC Participants and OTC Participant Related Entities

Only OTC Participants are entitled to have OTC Transactions registered in their name, in either their House Clearing Account or their Client Clearing Account (as determined in accordance with these OTC Rules and the Futures Rules).

Except to the extent that the Client Protection Model Provisions apply, each OTC Participant must be acting as principal in respect of each OTC Transaction and each OTC Participant represents and warrants that it is acting as principal in respect of an OTC Transaction.

However, ASX Clear (Futures) may approve a Related Body Corporate of an OTC Participant to be an **OTC Participant Related Entity**. OTC Transactions which have been entered into by an OTC Participant Related Entity may also be submitted for registration as an OTC Transaction of the related OTC Participant in accordance with OTC Rule 4.3 (Submission of OTC Transactions). If such an OTC Transaction is accepted for registration in accordance with OTC Rule 4.6 (Creation of OTC Open Contracts) then the OTC Transaction will be registered by ASX Clear (Futures) in the name of the related OTC Participant and in its House Clearing Account.

The related OTC Participant:

- (a) will be taken to be, and will be taken to have been, party to that OTC Transaction for the purposes of these OTC Rules, the OTC Handbook and the Futures Rules, regardless of the identity of the original contracting party to the OTC Transaction;
- (b) will be taken to be acting as principal in respect of that OTC Transaction and ASX Clear (Futures) will not in any way be required to recognise any OTC Participant Related Entity and is not in any way responsible for the performance of the obligations under OTC Open Contracts to any OTC Participant Related Entity;
- (c) will ensure that the OTC Transaction is terminated in accordance with OTC Rule 4.6(b) as if it were an original contracting party to that OTC Transaction and represents and warrants that it has the full capacity and authority to terminate the OTC Transaction on behalf of the OTC Participant Related Entity; and
- (d) indemnifies and will keep indemnified ASX Clear (Futures) and its officers, representatives, agents and contractors against all actions, proceedings, claims, demands, damages, costs, expenses and any other amounts including any transaction taxes, goods and services taxes or any other duties or taxes (extending to include any taxes payable by ASX Clear (Futures) on a payment made under this indemnity) against or incurred by any of ASX Clear (Futures), its officers, representatives, agents or contractors arising out of or in connection with the registration of the OTC Transaction submitted by an OTC Participant Related Entity, or any action taken by, or any inaction by, any of ASX Clear (Futures) or its officers, representatives, agents or contractors in connection with the registration of the OTC Transaction submitted by an OTC Participant Related Entity, to the extent that it was not caused by the negligence, fraud or wilful default of ASX Clear (Futures).

ASX Clear (Futures) will not in any way have any obligation in connection with, or be on notice in relation to, any matter arising between the OTC Participant and any OTC Participant Related Entity or otherwise affecting the OTC Participant Related Entity. Nothing in this provision means that any OTC Participant Related Entity:

- (i) is an OTC Participant for the purpose of these OTC Rules, the OTC Handbook and the Futures Rules;
- (ii) has any rights against ASX Clear (Futures); or
- (iii) has any interest in any OTC Open Contract.

In addition, nothing in this provision limits OTC Rule 2.10 (Relationship with ASX Clear (Futures)).

### **4.3 Submission of OTC Transactions**

An OTC Transaction to be submitted for registration must be presented to ASX Clear (Futures) in accordance with the OTC Handbook.

OTC Transactions must be submitted for registration using an Approved Trade Source System (as described in the OTC Handbook).

OTC Transactions submitted through an Approved Trade Source System must be in an acceptable message format, as prescribed by ASX Clear (Futures) from time to time.

ASX Clear (Futures) will satisfy itself that a trade source system is suitable as an Approved Trade Source System for ASX Clear (Futures) before approving it as an Approved Trade Source System.

A CPM Client may submit an OTC Transaction to ASX Clear (Futures) for approval by the CPM Client's relevant OTC Participant in accordance with the above paragraphs of this OTC Rule 4.3. However, an OTC Participant may notify ASX Clear (Futures) of limitations on the types of OTC Transactions which may be submitted for registration on behalf of a CPM Client.

Once consent has been obtained or is taken to have been obtained (in accordance with the OTC Handbook) from the OTC Participants in whose Clearing Account the OTC Open Contracts would be created by the registration of that OTC Transaction, then the OTC Transaction is taken to have been submitted by the OTC Participant to ASX Clear (Futures) for registration and, for the purposes of these OTC Rules, the OTC Handbook and the Futures Rules, the OTC Participant is taken to be a party to the OTC Transaction.

#### **4.4 Reliance on correctness**

ASX Clear (Futures) is entitled to rely on the particulars of any OTC Transaction notified to it as being correct and it is not bound to recognise any error in relation to such particulars.

#### **4.5 Acceptance for registration**

ASX Clear (Futures) will accept the submission of an OTC Transaction for registration if:

- (a) the OTC Transaction has been submitted for registration in accordance with the OTC Handbook;
- (b) each OTC Participant with whom an OTC Open Contract would be registered in respect of that OTC Transaction:
  - (i) was not in Default as at the time at which the OTC Transaction was received by ASX Clear (Futures) for registration;
  - (ii) is authorised as an OTC Participant in respect of the relevant OTC Transaction Type; and
  - (iii) is entitled under these OTC Rules and the Futures Rules to have an OTC Transaction registered in its name;
- (c) the OTC Transaction satisfies the OTC Eligibility Criteria set out in the OTC Handbook;
- (d) the OTC Transaction passes the limit check applicable to it in accordance with the OTC Handbook for each OTC Participant with whom an OTC Open Contract would be registered in respect of that OTC Transaction;
- (e) ASX Clear (Futures) does not reasonably believe that its registration of the OTC Transaction will contravene applicable law; and
- (f) each applicable additional condition relevant to the OTC Transaction set out in the OTC Handbook is satisfied.

In addition, ASX Clear (Futures) may, in its absolute discretion, accept the submission of an OTC Transaction for registration if it does not satisfy all of the conditions set out in (a) to (f) above.

Where ASX Clear (Futures) has accepted the submission of an OTC Transaction for registration, that OTC Transaction will be deemed to have been registered as at the time it was received by ASX Clear (Futures).

#### 4.6 Creation of OTC Open Contracts

The effect of registration of an OTC Transaction is that ASX Clear (Futures) will be interposed, by novation, as the counterparty under an OTC Open Contract to each OTC Participant which was, or was taken to be, a party to the OTC Transaction. The result of this is that:

- (a) two OTC Open Contracts are created, one between ASX Clear (Futures) and each OTC Participant which was, or was taken to be, a party to the OTC Transaction. Under each OTC Open Contract, ASX Clear (Futures) has the same rights against, and obligations to, each OTC Participant which the other OTC Participant had, or was taken to have, under the OTC Transaction (this reference to the "same" rights or obligations is a reference to rights or obligations which are the same in nature and character as those rights or obligations rather than the same as to the person or persons entitled to them or obliged to perform them);
- (b) the OTC Transaction is terminated so that each OTC Participant is released from its obligations to the other OTC Participant which was, or was taken to be, a party to the OTC Transaction, except for outstanding obligations which have fallen due for performance and which have not been performed at the time of registration; and
- (c) each OTC Participant which was, or was taken to be, a party to the OTC Transaction is bound by its respective OTC Open Contracts with ASX Clear (Futures) automatically and without any further action on their part.

The terms of these OTC Open Contracts incorporate all applicable terms of the OTC Rules and the OTC Handbook (including the OTC Terms set out in the OTC Handbook which are applicable to the relevant OTC Open Contract).

Each OTC Open Contract is between:

- (a) if the Client Protection Model Provisions do not apply in respect of an OTC Open Contract, ASX Clear (Futures) and an OTC Participant as principal and not as agent and no other person has any rights or obligations under any OTC Open Contract between the OTC Participant and ASX Clear (Futures); or
- (b) if the Client Protection Model Provisions apply in respect of an OTC Open Contract, ASX Clear (Futures), an OTC Participant and its CPM Client (in accordance with the Client Protection Model Provisions) and no other person has any rights or obligations under the OTC Open Contract.

The OTC Open Contracts are not dependent on the valid existence of the associated OTC Transaction. If the OTC Transaction is rendered invalid after it has been registered, the corresponding OTC Open Contracts are not affected.

#### 4.7 Incorrectly registered OTC Transactions

If an OTC Transaction is incorrectly registered by ASX Clear (Futures) then ASX Clear (Futures) may, in its discretion:

- (a) with the agreement of the OTC Participants party to the OTC Open Contracts created by the registration, correct the registration of the OTC

Transaction so that it is taken to have been registered as corrected and these OTC Rules and the Futures Rules apply accordingly; or

- (b) not amend the registration, in which case the original terms so registered will apply to that OTC Transaction and the consequent OTC Open Contracts created by the registration.

Any such correction in accordance with OTC Rule 4.7(a) may be made subject to any conditions imposed by ASX Clear (Futures) including provision of Margin. ASX Clear (Futures) is not liable to any person in connection with any correction so made.

#### 4.8 Authoritative Record

The record of OTC Open Contracts and OTC Open Positions maintained by ASX Clear (Futures) is the authoritative record and is conclusive at all times.

#### 4.9 Performance of OTC Open Contracts

Each OTC Participant must perform all of its obligations under the terms of each OTC Open Contract registered in its name.

#### 4.10 Trade amendment and cancellation

An OTC Open Contract may only be varied by OTC Participants by [netting the OTC Open Contract in accordance with OTC Rule 4.14 \(Netting of OTC Open Contracts\)](#) and, where applicable, ~~re-bilateralisation in accordance with OTC Rule 4.12 (Re-bilateralisation)~~ and submission of a new OTC Transaction for registration in accordance with OTC Rule 4.3 (Submission of OTC Transactions).

An OTC Open Contract may only be cancelled by OTC Participants [by netting the OTC Open Contract in full in accordance with OTC Rule 4.14 \(Netting of OTC Open Contracts\)](#) ~~in accordance with OTC Rule 4.12 (Re-bilateralisation)~~.

*[\[Explanatory Note: the amendments to OTC Rule 4.10 are to account for the removal of the re-bilateralisation provisions, and expansion of the netting provisions in OTC Rule 4.14\]](#)*

#### 4.11 Backloading

An OTC Transaction with a trade date that is more than the number of Business Days prescribed in the OTC Handbook prior to the date of initial submission for registration of the OTC Transaction in a form that satisfies the OTC Eligibility Criteria set out in the OTC Handbook, must be submitted for registration in accordance with the OTC Handbook.

The submission for registration of such OTC Transactions requires bilateral agreement between the OTC Participants which are, or are taken to be, parties to the OTC Transactions of the full particulars required by ASX Clear (Futures) for each OTC Transaction.

#### ~~4.12 Re-bilateralisation~~

~~The conditions for the removal of two OTC Open Contracts which have equal but offsetting terms (except for the identity of the parties) are:~~

- ~~(a) the OTC Open Contracts must not have matured; and~~

~~(b) there must be no cash flows (e.g. coupon settlement) under the OTC Open Contracts due on the day of re-bilateralisation.~~

~~Two OTC Open Contracts satisfying the above conditions may be removed by ASX Clear (Futures) if:~~

~~(a) each OTC Participant in whose account an OTC Open Position in respect of one of those OTC Open Contracts is being held notifies ASX Clear (Futures) of its instructions to remove the OTC Open Contract;~~

~~(b) any conditions on accepting such instructions determined by ASX Clear (Futures) in its discretion (which may include the provision of Margin from either or both OTC Participants) have been satisfied;~~

~~(c) neither OTC Participant is in Default at the time at which the instructions are received by ASX Clear (Futures); and~~

~~(d) ASX Clear (Futures) chooses, at its discretion, to accept those instructions.~~

~~The effect of the removal is that the OTC Open Contracts are terminated and ASX Clear (Futures) no longer has any rights against, or obligations to, either of the OTC Participants which held an OTC Open Position with respect to that OTC Open Contract or, if applicable, their CPM Clients, under the terms of those OTC Open Contracts.~~

~~Any request for re-bilateralisation may only be made in accordance with the OTC Participant's internal arrangements for authorising such a request, which the OTC Participant is required to have under OTC Rule 2.14 (Access arrangements and trade authorisation).~~

~~The OTC Handbook sets out the procedures and timing for the removal of OTC Open Contracts. The OTC Participants and, if applicable, their CPM Clients, may agree the terms of a transaction between them following, and in connection with, removal of the OTC Open Contract.~~

~~**[Explanatory Note: The amendments to OTC Rule 4.12 reflect that:**~~

~~for the purposes of client clearing, OTC Open Positions may be held in an OTC Participant's account;~~

~~• where two OTC Open Contracts are removed by ASX Clear (Futures) in accordance with OTC Rule 4.12, ASX Clear (Futures) no longer has any rights against, or obligations to, either of the OTC Participants or, if applicable, their CPM Clients, under the terms of those OTC Open Contracts;~~

~~• OTC Participants, and, if applicable, their CPM Clients, may agree the terms of a transaction between them following, and in connection with, removal of the OTC Open Contract; and~~

~~• Rebilateralisation cannot occur if one of the OTC Participants to the OTC Open Contract is in Default.~~

~~[Explanatory Note: the amendments are to account for the removal of the re-bilateralisation provisions, and expansion of the netting provisions in OTC Rule 4.14]~~

#### **4.1312 Transfer of OTC Open Contracts**

Any transfer of an OTC Open Contract by an OTC Participant may only be effected in accordance with this OTC Rule 4.1312 and the procedures set out in the OTC

[Handbook](#). Any purported transfer not in accordance with this OTC Rule will not be effective. However, this OTR Rule 4.~~13~~ 12 is subject to the Client Protection Model Provisions.

ASX Clear (Futures) may, on the request of an OTC Participant, transfer an OTC Open Contract to a Clearing Account of that OTC Participant (from another OTC Participant) if the following conditions are satisfied:

- (a) the OTC Open Contract must not have matured;
- (b) there must be no cash flows under the OTC Open Contract due on the day of transfer;
- (c) the transferee of the OTC Open Contract must be an OTC Participant;
- (d) that OTC Participant is authorised in respect of the OTC Transaction Type to which that OTC Open Contract relates; and
- (e) neither OTC Participant is in Default at the time at which the request is received by ASX Clear (Futures).

ASX Clear (Futures) may in its discretion, decline any request without cause or impose such conditions on accepting such a request as it thinks fit, including requiring Margin.

The OTC Participant from which the OTC Open Contract is to be transferred must consent to the transfer before it can be effected.

The transfer of an OTC Open Contract is effected by novation so that:

- (a) a new OTC Open Contract is created between ASX Clear (Futures) and the OTC Participant to whom the OTC Open Contract is to be transferred. Under this OTC Open Contract:
  - (i) ASX Clear (Futures) has the same rights against, and obligations to, the receiving OTC Participant which it had under the OTC Open Contract between ASX Clear (Futures) and the transferring OTC Participant; and
  - (ii) the receiving OTC Participant has the same rights against, and obligations to, ASX Clear (Futures) which the transferring OTC Participant had against ASX Clear (Futures) under the OTC Open Contract between ASX Clear (Futures) and the transferring OTC Participant.

However, this reference to the “same” rights or obligations is a reference to rights or obligations which are the same in nature and character as those rights or obligations rather than the same as to the person or persons entitled to them or obliged to perform them; and

- (b) the OTC Open Contract between ASX Clear (Futures) and the transferring OTC Participant is terminated so that each of ASX Clear (Futures) and that OTC Participant is released from its obligations to the other, except for outstanding obligations which have fallen due for performance and which have not been performed at the time of registration.

[\[Explanatory Note: the amendments to OTC Rule 4.12 are to account for the removal of the re-bilateralisation provisions, and expansion of the netting provisions in OTC Rule 4.14\]](#)

#### 4.1413 OTC Portfolio Compression

If the requirements for portfolio compression set out in the OTC Handbook are met, then ASX Clear (Futures) ~~will~~ may facilitate a portfolio compression cycle with respect to an OTC Transaction Type in accordance with the procedures set out in the OTC Handbook.

[Explanatory Note: the amendments to OTC Rule 4.13 retain a discretion on ASX Clear (Futures)'s part not to proceed with portfolio compression where appropriate]

#### 4.1514 Netting of OTC Open Contracts

OTC Open Contracts held in the same Client Sub-Account or in the House Clearing Account may be netted with other OTC Open Contracts held in the same Client Sub-Account, or the House Clearing Account (as applicable) in accordance with the procedures set out in the OTC Handbook.

An OTC Participant may make a request for two or more OTC Open Contracts (which satisfy the conditions set out in the OTC Handbook) to be netted by submitting the trade references of each OTC Open Contract to ASX Clear (Futures). By making a request to net OTC Open Contracts held in the same Client Sub-Account, an OTC Participant represents and warrants to ASX Clear (Futures) that such a request is made in accordance with the client agreement between the OTC Participant and the relevant Client. If ASX Clear (Futures) accepts these OTC Open Contracts for netting, then:

- (a) the rights and obligations under each OTC Open Contract are, as far as possible, to be set-off against each other;
- (b) any remaining rights and obligations following such set-off are to comprise a single OTC Open Contract reflecting the net economic terms of such netted OTC Open Contracts. Following the completion of set-off there will be no remaining obligations between the OTC Participant and ASX Clear (Futures) in respect of the netted OTC Open Contracts; and
- (c) ASX Clear (Futures) shall determine the resulting notional amount of the OTC Open Contract (if any) that replaces the netted OTC Open Contracts, and such determination shall be binding on the OTC Participant, absent manifest error.

[Explanatory Note: OTC Open Contracts netted under this rule may be for the same or different Notional Amounts.]

[Explanatory Note: netting of OTC Open Contracts may occur with respect to OTC Open Contracts within the House Clearing Account or within a Client Sub-Account.]

## 5 ACCOUNTS AND MARGIN

### 5.1 Signpost to related Futures Rules

These OTC Rules relate to matters which are addressed in Part 4 (Accounts and Daily Settlement) of the Futures Rules. Part 4 of the Futures Rules (except Futures

Rules 41, 44.5 to 44.7 and 47.2 to 47.4) does not apply to OTC Clearing except to the extent set out in this OTC Rule 5.

## **5.2 Transfer of OTC Initial Margin**

In respect of each of its OTC Open Positions, whether recorded in the House Clearing Account or the Client Clearing Account, each OTC Participant must transfer to ASX Clear (Futures) an amount of money in Australian dollars (or such other currency set out in the OTC Handbook as ASX Clear (Futures) accepts in its discretion) equal to the OTC Initial Margin required as determined by ASX Clear (Futures) from time to time. The amounts must be transferred upon demand or by such time as is set out in the OTC Handbook or is otherwise required by ASX Clear (Futures). These transferred amounts are to be dealt with by ASX Clear (Futures) in accordance with these OTC Rules and the Futures Rules.

OTC Initial Margin is Margin for the purpose of the Futures Rules.

## **5.3 Securities as OTC Initial Margin**

ASX Clear (Futures) may in its absolute discretion:

- (a) accept the transfer of securities or other property set out in the OTC Handbook as OTC Initial Margin; and
- (b) prescribe limits on the aggregate amount of securities or other property that an OTC Participant can lodge as OTC Initial Margin, whether applicable to a particular OTC Participant or otherwise.

All such transfers are absolute transfers of all right, title and interest in the securities or other property to ASX Clear (Futures) except to the extent that Part 11 (Security Interest provisions) of the Future Rules applies.

ASX Clear (Futures) may determine the valuation of any such securities or other property in its sole discretion. ASX Clear (Futures) may apply valuation haircuts to such valuations as set out in the OTC Handbook as varied from time to time, but subject to the right of ASX Clear (Futures) to determine different valuations at any time in its sole discretion.

ASX Clear (Futures) may from time to time require an OTC Participant to:

- (a) transfer further OTC Initial Margin to ensure that ASX Clear (Futures)' valuations of the money, securities or other property comprising the OTC Initial Margin is at least equal to the amount of OTC Initial Margin required from the OTC Participant; or
- (b) replace any securities or other property which have been transferred by the OTC Participant as OTC Initial Margin with money, other securities or other property required by ASX Clear (Futures).

The obligation upon an OTC Participant to make a transfer under this OTC Rule 5.3 is in addition to any other obligation of the OTC Participant to make transfers of cash amounts, securities, collateral or property as otherwise provided in accordance with the OTC Rules.

## **5.4 Change of OTC Initial Margin obligations**

ASX Clear (Futures) may in appropriate circumstances, or for particular OTC Open Contracts or classes of OTC Open Contracts, determine a higher or lower rate of OTC Initial Margin for a particular OTC Participant, CPM Client or class of OTC Participants or CPM Clients.

In addition, ASX Clear (Futures) may, from time to time and in its discretion, require that an OTC Participant transfers in relation to OTC Open Positions a greater OTC Initial Margin than that which the OTC Participant would otherwise be required to provide.

## 5.5 Portfolio Margining

ASX Clear (Futures) may, from time to time, notify OTC Participants of specified classes of Open Contracts (other than OTC Open Contracts) that it may take into account in determining the amount of OTC Initial Margin required to be transferred by an OTC Participant.

An OTC Participant may, in accordance with the OTC Handbook, request that Open Contracts with that OTC Participant registered in a Clearing Account of an OTC Participant of a class so notified by ASX Clear (Futures) be taken into account in determining the amount of OTC Initial Margin required from that OTC Participant in respect of OTC Open Contracts held in the same Clearing Account. However, if the relevant Clearing Accounts are Client Clearing Accounts then the request may only be made if the Open Contracts and OTC Open Contracts are both held in Individual Sub-Accounts of the same CPM Client and, if a Nominated Person has previously been notified to ASX Clear (Futures) for either Individual Sub-Account, in respect of the same Nominated Person.

If ASX Clear (Futures) accepts such a request from an OTC Participant, then ASX Clear (Futures) will:

- (a) take into account such Open Contracts in determining the amount of OTC Initial Margin required from that OTC Participant; and
- (b) not take such Open Contracts into account in determining the amount of Initial Margin other than OTC Initial Margin required from that OTC Participant,

in each case, in accordance with the OTC Handbook.

Without limiting its discretion to refuse such a request from an OTC Participant (including if it has previously been requested), ASX Clear (Futures) may refuse such a request if it is of the view that such portfolio margining would not reduce risk in respect of the clearing facilities provided in accordance with these OTC Rules. ASX Clear (Futures) is not required to demonstrate the basis for any such view.

## 5.6 OTC Intra-day Margin and OTC Extra Margin

An OTC Participant must, on each Business Day, transfer to ASX Clear (Futures) by way of **OTC Intra-day Margin** amounts owing as a result of any OTC Intra-day Margin call made by ASX Clear (Futures). The manner and timing of such payments are set out in the OTC Handbook.

In addition to, or instead of, the OTC Intra-day Margins ASX Clear (Futures) may at any time require, at its absolute discretion, any one or more OTC Participants (by a time determined by ASX Clear (Futures)) to transfer as **OTC Extra Margin** further cash, securities, margin or cover for OTC Open Contracts or OTC Transactions eligible to be registered. Such OTC Participants must, in accordance with such a requirement, transfer to ASX Clear (Futures) by way of OTC Extra Margin further cash, securities, margin or cover as ASX Clear (Futures) determines.

Any OTC Intra-day Margin and OTC Extra Margin transferred to ASX Clear (Futures) by an OTC Participant is to comply with the requirements for, be treated as, held by and dealt with ASX Clear (Futures) as OTC Initial Margin.

## 5.7 OTC Daily Closing Value

The closing value of OTC Open Contracts (referred to as **OTC Daily Closing Value**) will be determined by ASX Clear (Futures) in the manner, and at such times, as is set out in the OTC Handbook. This calculation by ASX Clear (Futures) is conclusive and final.

## 5.8 OTC Daily Variation Margin

ASX Clear (Futures) will calculate the OTC Daily Variation Margin applicable to OTC Open Contracts in the manner set out in the OTC Handbook.

Following each such determination:

- (a) if ASX Clear (Futures) determines that an OTC Participant needs to pay OTC Daily Variation Margin to ASX Clear (Futures) then the OTC Participant must pay to ASX Clear (Futures) the amount of any OTC Daily Variation Margin which ASX Clear (Futures) has determined is owing by the OTC Participant; or
- (b) if ASX Clear (Futures) determines that it needs to pay OTC Daily Variation Margin to an OTC Participant then ASX Clear (Futures) must pay to the OTC Participant the amount of any OTC Daily Variation Margin which ASX Clear (Futures) has determined is owing to the OTC Participant.

OTC Daily Variation Margin must be paid in Australian dollars, or such other currency that ASX Clear (Futures) determines is acceptable in its discretion from time to time. The payment of OTC Daily Variation Margin is made absolutely and is to be in accordance with the OTC Handbook.

An OTC Participant is not entitled to repayment of the amount of OTC Daily Variation Margin except in accordance with these OTC Rules, the OTC Handbook and ASX Clear (Futures)' margining policy.

OTC Daily Variation Margin is Variation Margin for the purposes of the Futures Rules.

## 5.9 Price Alignment Interest

Price Alignment Interest is payable on OTC Daily Variation Margin in the manner set out in the OTC Handbook.

## 5.10 Excess Margin

All amounts held by ASX Clear (Futures) in an OTC Participant's House Clearing Account and Client Clearing Account, including any monies transferred in excess of an OTC Participant's Margin obligations at the time of the transfer, are taken to have been transferred for the purpose of satisfying Margin obligations of that OTC Participant.

Amounts held by ASX Clear (Futures) which are in excess of an OTC Participant's Margin obligations from time to time are refundable to the OTC Participant by ASX Clear (Futures) upon demand, provided that ASX Clear (Futures) is satisfied, in its absolute discretion, that such amounts will not be required to satisfy the OTC Participant's obligations (present, future or contingent) under the Rules (including a Margin obligation).

## 5.11 Errors, corrections and related disputes

In the event ASX Clear (Futures) determines that an error has been made in relation to a calculation, payment, amount or similar under the OTC Rules, OTC Handbook or Futures Rules, whether paid or unpaid, due and payable or prospective, retrospective or contingent, ASX Clear (Futures) may, in its sole discretion:

- (a) carry out any or all adjustments or corrections that ASX Clear (Futures) deems appropriate in relation to that error; and
- (b) impose such conditions or undertake any such actions as ASX Clear (Futures) considers appropriate to deal with the consequential impacts (whether actual or potential) in relation to making such adjustments or corrections.

Where ASX Clear (Futures) determines to take any such actions under (a) or (b) above, ASX Clear (Futures) will notify the Clearing Participants involved as soon as reasonably practicable after making such a determination. Where any adjustment or correction involves an adjustment payment to any previous amounts paid by an OTC Participant, the relevant party shall pay the adjustment amount within one Business Day of its receipt of ASX Clear (Futures)' determination.

ASX Clear (Futures) may determine any disputes in relation to errors, purported errors or any other related matters contemplated by this OTC Rule 5.11 including, but not limited to, matters relating to the calculation, payment or valuation of OTC Initial Margin, OTC Daily Variation Margin, OTC Intra-day Margin, OTC Extra Margin, coupons and Price Alignment Interest. Where ASX Clear (Futures) makes such a determination in relation to a dispute, that determination will be final and binding on all the parties.

ASX Clear (Futures) is not liable to any person in connection with any adjustment, correction, condition, action, consequential impact (whether actual or potential) or determination made or incurred under this OTC Rule.

## 6 DEFAULT

### 6.1 Signpost to related Futures Rules

These OTC Rules relate to matters which are addressed in:

- Futures Rule 7 (Satisfaction of Obligations of ASX Clear (Futures)); and
- Part 7 (Procedures on a Default) of the Futures Rules.

These OTC Rules supplement those Futures Rules, which continue to apply to OTC Clearing.

Part 7A (Termination with respect to ASX Clear (Futures)) of the Futures Rules applies to OTC Clearing.

### 6.2 Default management process

The provisions of these OTC Rules, the Futures Rules and the OTC Handbook relating to default management (referred to as the **Default Management Provisions**) include:

- Futures Rule 7 and Part 7 of the Futures Rules;
- this OTC Rule 6 (Default);

- default management process set out in Schedule 3 (Default Management Process) to these OTC Rules;
- the procedures for the default management group set out in the OTC Handbook; and
- the procedures for default management auctions set out in Schedule 4 (Default Management Auction Procedures) to the OTC Handbook.

Each OTC Participant must:

- comply with, and ensure each employee of the OTC Participant and of each Related Body Corporate of such OTC Participant, who is directly involved in the default management process on behalf of the OTC Participant, complies with, its obligations in connection with the Default Management Provisions, including maintaining internal systems and processes (as determined by the OTC Participant) required for participation in a DM Auction and acceptance of (where required by the Rules) DM Hedging Transactions, Independent DM Transactions and DM Auction Transactions (each as defined in Schedule 3 (Default Management Process) to these OTC Rules);
- approve ASX Clear (Futures) as a counterparty with which it can enter into DM Hedging Transactions, Independent DM Transactions or DM Auction Transactions in accordance with the Default Management Provisions and deal with ASX Clear (Futures) as counterparty in a manner consistent with, and in any event on no less favourable terms, than the manner in which it deals with any bank counterparty of the OTC Participant with the same or similar creditworthiness or risk profile;
- co-operate with, act in good faith toward, and not cause any hindrance to, ASX Clear (Futures) in respect of any DM Hedging Transactions, Independent DM Transactions or DM Auction Transactions including providing competitive quotes in a timely manner upon request, such quotes to be two way prices in accordance with usual bid/offer conventions;
- co-operate with, act in good faith toward, and not cause any hindrance to, ASX Clear (Futures) in the course of the management of any Default or Termination;
- if requested by ASX Clear (Futures), take part in tests designed and implemented by ASX Clear (Futures) from time to time that evaluate the OTC Participant's ability to fulfil its default management obligations;
- appoint one of the employees of such OTC Participant or of any Related Body Corporate of such OTC Participant as:
  - Designated DMG Member; and
  - Designated DMG Deputy,
 as primary contacts for ASX Clear (Futures) for all general matters relating to default management. Each OTC Participant must notify ASX Clear (Futures) of the appointment in the manner prescribed by ASX Clear (Futures) in the OTC Handbook from time to time.

### 6.3 Default and Defaulted OTC Participants

In accordance with Futures Rule 71.1 an OTC Participant must notify ASX Clear (Futures) if an event of Default occurs under Futures Rule 71.3 (as supplemented by

OTC Rule 6.4 (Events of Default) below), or if the OTC Participant has reasonable grounds to suspect that an event of Default may occur.

Whether or not such notice is given, if ASX Clear (Futures) is of the opinion that there is an event of Default with respect to an OTC Participant then ASX Clear (Futures) may declare the OTC Participant to be in Default and for the purposes of the Futures Rules that OTC Participant is taken to have **Defaulted**.

Without limiting the above, an OTC Participant is automatically taken to have Defaulted if an event occurs in connection with insolvency or bankruptcy with respect to it of a type which is specified by ASX Clear (Futures) from time to time. If such an event occurs, then all of the OTC Participant's Open Contracts are subject to Termination having a Termination Time immediately upon the occurrence of such event.

## 6.4 Events of Default

The events of Default set out in Futures Rules 71.3 apply to OTC Participants. In addition, each of the following events are included in the list of the events of Default set out in Futures Rule 71.3 with respect to an OTC Participant and apply to OTC Participants:

- (a) the OTC Participant is in breach of the rules of any recognised, designated or overseas investment exchange or clearinghouse;
- (b) the OTC Participant fails to pay any sum due and payable, or threatens to suspend payment under the terms of any agreement;
- (c) the OTC Participant breaches any of the Financial Requirements prescribed by ASX Clear (Futures);
- (d) the OTC Participant breaches any conditions prescribed by ASX Clear (Futures) on its admission as a Clearing Participant or on its authorisation as an OTC Participant;
- (e) upon request by ASX Clear (Futures), which may be made at any time, the OTC Participant fails to confirm on or before the cut-off time reasonably specified by ASX Clear (Futures) in its request that it is able to pay its debts as they become due;
- (f) the OTC Participant:
  - (i) is dissolved (other than pursuant to a consolidation, amalgamation or merger);
  - (ii) becomes insolvent or is unable to pay its debts or fails or admits in writing its inability generally to pay its debts as they become due;
  - (iii) makes a general assignment, arrangement or composition with or for the benefit of its creditors;
  - (iv) (A) institutes or has instituted against it, by a regulator, supervisor or any similar official with primary insolvency, rehabilitative or regulatory jurisdiction over it in the jurisdiction of its incorporation or organisation or the jurisdiction of its head or home office, a proceeding seeking a judgment of insolvency or bankruptcy or any other relief under any bankruptcy or insolvency law or other similar law affecting creditors' rights, or a petition is presented for its winding-up or liquidation by it or such regulator, supervisor or similar official; or

- (B) has instituted against it a proceeding seeking a judgment of insolvency or bankruptcy or any other relief under any bankruptcy or insolvency law or other similar law affecting creditors' rights, or a petition is presented for its winding-up or liquidation, and such proceeding or petition is instituted or presented by a person or entity not described in clause (A) above and either (1) results in a judgment of insolvency or bankruptcy or the entry of an order for relief or the making of an order for its winding-up or liquidation or (2) is not dismissed, discharged, stayed or restrained in each case within 15 days of the institution or presentation thereof;
- (v) has a resolution passed for its winding-up, official management or liquidation (other than pursuant to a consolidation, amalgamation or merger);
- (vi) seeks or becomes subject to the appointment of an administrator, provisional liquidator, conservator, receiver, trustee, custodian or other similar official for it or for all or substantially all its assets;
- (vii) has a secured party take possession of all or substantially all its assets or has a distress, execution, attachment, sequestration or other legal process levied, enforced or sued on or against all or substantially all its assets and such secured party maintains possession, or any such process is not dismissed, discharged, stayed or restrained, in each case within 15 days thereafter;
- (viii) causes or is subject to any of the events specified in clauses (i) to (vii) above (inclusive); or
- (ix) takes any action in furtherance of, or indicating its consent to, approval of, or acquiescence in, any of the foregoing acts.

## 6.5 Terminable Open Contracts

ASX Clear (Futures) may, from time to time, notify OTC Participants of classes of Open Contracts (other than OTC Open Contracts) that may be Terminated pursuant to OTC Rule 6.6 (Termination and Terminated Open Contracts). Open Contracts (other than OTC Open Contracts) of such classes are referred to as **Terminable Open Contracts**.

## 6.6 Termination and Terminated Open Contracts

The powers of ASX Clear (Futures) set out in Futures Rules 72 (Powers of ASX Clear (Futures) Upon A Default and Determination of a Loss) apply to OTC Participants.

By way of supplement, and not by limitation, if an OTC Participant is in Default then ASX Clear (Futures) can declare that the obligations of the OTC Participant (and if applicable, the relevant CPM Client) and ASX Clear (Futures) under:

- (a) OTC Open Contracts; and
- (b) any or all Terminable Open Contracts as determined by ASX Clear (Futures),

to be the subject of a **Termination** and the time at which such Termination is to be effective (referred to as the **Termination Time**). The Open Contracts (whether OTC Open Contracts or Terminable Open Contracts) which are the subject of such a

declaration may relate to either House Positions or Client Positions (or both) and are referred to as **Terminated Open Contracts**. ASX Clear (Futures) may, but is not obliged to, consult with the relevant DMG(s) in accordance with the Default Management Provisions in determining which Open Contracts are to be Terminated Open Contracts and the relevant Termination Time.

If ASX Clear (Futures) makes such a declaration then the present and future obligations of ASX Clear (Futures) and the OTC Participant (and if applicable, the relevant CPM Client) to make payments under the terms of the Terminated Open Contracts (including payments of OTC Daily Variation Margin and Variation Margin) are terminated and the payments are no longer required to be made.

***Explanatory Note:***

*Following termination of Open Contracts relating to Client Positions, such positions cease to be Client Positions and may be combined with terminated Open Contracts relating to House Positions.*

## **6.7 Termination Value**

ASX Clear (Futures) may, at any time, calculate a **Termination Value** in respect of one or more Terminated Open Contracts as selected by ASX Clear (Futures).

Without limiting the factors which ASX Clear (Futures) may take into account in determining such Termination Value, it may take into account its determination of:

- (a) the value of obligations which fell due in connection with the Terminated Open Contract(s) (including payment of OTC Daily Variation Margin and Variation Margin) before the Termination Time but which have not been performed;
- (b) the value of obligations which would have been due for performance under the Terminated Open Contracts after the Termination Time if the Terminated Open Contract(s) had not been Terminated (including payment of OTC Initial Margin, Initial Margin, OTC Daily Variation Margin and Variation Margin); and
- (c) its losses, costs, charges and expenses in connection with the Default Management Process with respect to the Terminated Open Contract(s) including, without limitation, DM Hedging Transaction Costs and amounts payable by it in respect of the DM Auctions.

ASX Clear (Futures) may include the amount of interest in any or all of (a), (b) and (c), calculated in a manner consistent with OTC Rule 8.4 (Interest on overdue amounts).

ASX Clear (Futures) may include a Termination Value calculated by it in any netting conducted in accordance with Futures Rule 72.3.

ASX Clear (Futures)' determination of a Termination Value is conclusive, but does not limit any of its rights under these OTC Rules, the Futures Rules or at law.

## **6.8 Combination and Allocation in default management process**

If Terminated Open Contracts involved in a default management process conducted in accordance with the Default Management Provisions relate to:

- (a) both House Positions and Client Positions of a Defaulted OTC Participant;  
or
- (b) the OTC Positions of more than one Defaulted OTC Participant,

then ASX Clear (Futures):

- (i) may combine any such Terminated Open Contracts so that they are treated as part of one or more portfolios at any time after the commencement of the default management process for the purposes of hedging, sale or auction in accordance with the Default Management Provisions;
- (ii) is to allocate any losses, costs, charges and expenses in connection with that default management process between the relevant Defaulted OTC Participants and between the House Accounts, Client Accounts and Client Sub-Accounts of the relevant Defaulted OTC Participants which relate to those Terminated Open Contracts (referred to in this OTC Rule as a **Relevant Account**). The losses, costs, charges and expenses are to be calculated as of the time of combination of such Terminated Open Contracts and will be conducted by allocating any losses, costs, charges and expenses to each Relevant Account proportionately to its relative risk as determined by ASX Clear (Futures) using the value of Initial Margin calculated with respect to each Relevant Account at the time of combination of the Terminated Open Contracts; and
- (iii) in the case of a Relevant Account which is a Client Sub-Account, is to deduct any losses, costs, charges and expenses so attributed to that Client Sub-Account in accordance with (ii) above from the Guaranteed Initial Margin Value of that Client Sub-Account in accordance with the Client Protection Model Provisions.

Schedule 6 (Allocation of Loss Worked Example) of the OTC Handbook provides an example of the allocation of Losses of ASX Clear (Futures) in accordance with this OTC Rule 6.8.

***Explanatory Note:***

*The principle of allocation underlying sub-paragraph (ii) is to allocate to the House Account or any non-ported Client Account the mark to market moves with respect to terminated contracts referable to the account up to the point where the account is combined with other accounts. Any post-combination mark to market moves are allocated to the constituent accounts of the combined portfolio on the basis of the risk of the constituent accounts at the time the accounts are combined, the risk measure used being initial margin as calculated by ASX at the point of combination.*

## **6.9 Application of OTC Initial Margin and all other amounts**

In addition to any other rights which ASX Clear (Futures) has in connection with the Default of an OTC Participant, ASX Clear (Futures) may apply or appropriate any amount of OTC Initial Margin, OTC Intra-day Margin or OTC Extra Margin or any other amount standing to the credit of the OTC Participant, and any other amount held by ASX Clear (Futures) in respect of the OTC Participant towards the payment or discharge of the amounts payable or deliverable by the Defaulted OTC Participant PROVIDED ALWAYS that any monies, securities, collateral or other property deposited with ASX Clear (Futures) with respect to OTC Open Positions designated to a Client Clearing Account, may be used to meet obligations in a Client Clearing Account only and must not be used to meet any obligations in a House Clearing Account.

However, this is subject to the Client Protection Model Provisions, to the extent to which they apply.

## **6.10 Information Sharing**

ASX Clear (Futures) may co-operate, by the sharing of information or otherwise, with any regulatory body or exchange, any relevant office-holder acting in relation to a Defaulted OTC Participant or its estate and any other authority or body having responsibility for, or any OTC Participant having an interest in, any matter arising out of or connected with the circumstances mentioned in these OTC Rules.

## **6.11 Advice and Assistance**

Without prejudice to any other OTC Rule, if an OTC Participant is in Default, ASX Clear (Futures) may obtain such assistance or advice, whether legal advice or otherwise, as ASX Clear (Futures) may deem necessary and at the expense of a Defaulted OTC Participant for any matter arising out of or in connection with the Default of that OTC Participant.

# **7 EMERGENCIES AND FORCE MAJEURE**

## **7.1 Signpost to related Futures Rules**

Part 8 (Emergency situations and force majeure) of the Futures Rules is applicable to OTC Clearing.

# **8 MISCELLANEOUS**

## **8.1 Signpost to related Futures Rules**

These OTC Rules relate to matters addressed in Part 9 (Miscellaneous Provisions) of the Futures Rules. Futures Rules 96 (Notification to the Exchange) and 102 (Compulsory Settlement) do not apply to OTC Clearing. However, all of the other Futures Rules in Part 9 apply to OTC Clearing, where relevant.

In addition the following OTC Rules apply.

## **8.2 Payments by OTC Participants**

Each payment made by an OTC Participant under these OTC Rules or the OTC Handbook must:

- (a) transfer all right, title and interest in the amount of money paid to ASX Clear (Futures);
- (b) be in the currency in which it is due and in immediately available and freely transferable funds;
- (c) be made on the due date for value on that date in Sydney;
- (d) be in full without set-off, cross-demand or counterclaim and without any deduction for taxes, levies, imposts, charges or duties (including stamp and transaction duties) imposed by any authority unless prohibited by law. Payments in respect of which such deduction or withholding is required to be made by law, by the OTC Participant, will be increased to the extent necessary to ensure that, after the making of the required deduction or withholding, ASX Clear (Futures) receives and retains (free from any liability in respect of such deduction or withholding) a net sum equal to the

sum which it would have received and so retained had no such deduction or withholding been made or required to be made; and

- (e) be made into the relevant Clearing Account held of that OTC Participant or such other account nominated by ASX Clear (Futures).

However, on each Business Day, ASX Clear (Futures) will:

- (i) aggregate or net any or all payments due between it and an OTC Participant on that day with respect to House Positions (whether related to OTC Open Contracts, Futures Contracts or otherwise) in the same currency to produce a single net amount which is payable between them in that currency; and
- (ii) aggregate or net any or all payments due between it and an OTC Participant on that day with respect to Client Positions (whether related to OTC Open Contracts, Futures Contracts or otherwise) in the same currency to produce a single net amount which is payable between them in that currency.

The obligations which were netted or aggregated to produce the single net amounts with respect to each of the House Clearing Account or the Client Clearing Account are discharged by their payment.

Payments with respect to House Positions are not to be aggregated or netted with any payments with respect to Client Positions. Nothing in this paragraph limits or restricts the operation of the Default Management Process.

### **8.3 Payments by ASX Clear (Futures)**

If a law requires ASX Clear (Futures) to withhold or deduct an amount in respect of taxes, levies, imposts, charges or duties (including stamp and transaction duties) imposed by any authority from a payment to an OTC Participant, a CPM Client or a Nominated Person, ASX Clear (Futures) will withhold or deduct the amount. ASX Clear (Futures) is not liable to pay any additional amount to the OTC Participant, CPM Client or Nominated Person in respect of any such withholding or deduction.

### **8.4 Interest on overdue amounts**

If the OTC Participant does not pay any amount under the Futures Rules, these OTC Rules or the OTC Handbook on the due date for payment, the OTC Participant agrees to pay interest on that amount at a rate per annum equal to ASX Clear (Futures)' cost (without proof or evidence of any actual cost) to ASX Clear (Futures) (as certified by ASX Clear (Futures)) if ASX Clear (Futures) were to fund, or of funding, the relevant amount plus 2% (per annum). The interest accrues daily from (and including) the due date to (but excluding) the date on which ASX Clear (Futures) is paid the amount and is calculated on actual days elapsed and a year of 365 days.

The OTC Participant agrees to pay interest under this clause on demand from ASX Clear (Futures).

### **8.5 Discretion in exercising rights**

ASX Clear (Futures) may exercise a right or remedy or give or refuse its consent under these OTC Rules in any way it considers appropriate (including by imposing conditions).

Any exercise of discretion or other choice by ASX Clear (Futures) under these OTC Rules may be made in the absolute discretion of ASX Clear (Futures) unless these OTC Rules expressly state otherwise. However, ASX Clear (Futures) will exercise such rights and remedies in good faith having regard to the obligations, duties, powers and discretions which it has as the holder of, or in connection with the holding of, an Australian CS facility licence under Part 7.3 of the Corporations Act.

The rights and remedies of ASX Clear (Futures) under these OTC Rules may be exercised even if ASX Clear (Futures) has a personal interest in their exercise.

## **8.6 Consents**

Each OTC Participant and, if applicable, CPM Client, agrees to comply with all conditions in any consent ASX Clear (Futures) gives in connection with these OTC Rules.

## **8.7 Partial exercising of rights**

If ASX Clear (Futures) does not exercise a right or remedy under these OTC Rules fully or at a given time, it may still exercise it later.

## **8.8 No liability for loss**

ASX Clear (Futures) is not liable for loss caused by the exercise or attempted exercise of, failure to exercise, or delay in exercising, a right or remedy under these OTC Rules.

## **8.9 Remedies cumulative**

The rights and remedies of ASX Clear (Futures) under these OTC Rules are in addition to other rights and remedies available under the Futures Rules or given by law independently of these OTC Rules.

## **8.10 When ASX Clear (Futures) taken to have performed its obligations**

Where an OTC Rule specifies a time by which a party to an OTC Open Contract must perform its obligations or exercise its rights under that OTC Open Contract (including with respect to OTC Daily Variation Margin), ASX Clear (Futures) will be taken to have complied with that OTC Rule if it performs its obligations or exercises its rights as soon as practicable after the time specified, unless the OTC Rule expressly provides that ASX Clear (Futures) must perform or exercise at or before the time specified.

## **8.11 OTC Participant to have e-mail**

An OTC Participant must acquire and maintain an operating e-mail system for the purposes of receiving notices under these OTC Rules.

## **8.12 Governing law**

These OTC Rules are to be interpreted in accordance with the laws of New South Wales.

## **9 CLIENT PROTECTION MODEL PROVISIONS**

Part 10 (Client Protection Model Provisions) of the Futures Rules applies, in accordance with its terms, to OTC Clearing.

## **10 SECURITY INTEREST PROVISIONS**

Part 11 (Security Interest Provisions) of the Futures Rules applies, in accordance with its terms, to OTC Clearing.

## Schedule 1 – Relationship with Futures Rules

*This schedule sets out whether, for each Futures Rule, it is replaced by a specific OTC Rule or is varied or supplemented by a specific OTC Rule, and, if neither, whether it otherwise applies to OTC Clearing, or is not relevant to OTC Clearing.*

A Futures Rule	B Replaced by OTC Rule (and Futures Rule does not apply)	C Supplementary OTC Rule (and Futures Rule applies as varied or supplemented)	If not referred to in column B or C:	
			D Futures Rule applies	E Futures Rule not relevant (and does not apply)
1.1		1.3		
1.2		<del>1.4</del> 13		
1.3		1.2		
1.4	<del>1.4</del> 10(k)			
1.5	<del>1.4</del> 12			
1.6		<del>1.4</del> 10(d)		
1.7		<del>1.4</del> 10(e)		
1.8				Not relevant
1.9				Not relevant
1.10			Applicable	
1.11			Applicable	
3.1.1			Applicable	
3.1.2			Applicable	
3.2.1		2.9		
3.2.2			Applicable	
3.2.3			Applicable	
3.3				Not relevant
3.4.1			Applicable	
3.4.2			Applicable	
4.1		2.2, 2.3		
4.2		2.4		
4.3				Not relevant
4.4		2.3		
4.5			Applicable	
4.6		2.6		
4.7		2.6		
4.7A		2.7		

A Futures Rule	B Replaced by OTC Rule (and Futures Rule does not apply)	C Supplementary OTC Rule (and Futures Rule applies as varied or supplemented)	If not referred to in column B or C:	
			D Futures Rule applies	E Futures Rule not relevant (and does not apply)
4.7B		2.6		
4.8			Applicable	
4.9		2.8		
4.10		2.5, 2.7		
4.11			Applicable	
4.12			Applicable	
4.13			Applicable	
4.14 (except 4.14(j)(v), 4.14(ja) and (l))			Applicable	
4.14(j)(v), 4.14(ja) and (l)				Not relevant
4.15			Applicable	
5.1		3.2		
5.2			Applicable	
5.3			Applicable	
5.4			Applicable	
5.5			Applicable	
5.5A			Applicable	
5.6	3.2			
5.7			Applicable	
5.7A			Applicable	
5.8			Applicable	
5.9			Applicable	
5.10			Applicable	
5.11				Not relevant
6.1			Applicable	
6.2			Applicable	
6.3			Applicable	
7.1			Applicable	
7.2			Applicable	
7.3			Applicable	
7.4			Applicable	
7.5			Applicable	

A Futures Rule	B Replaced by OTC Rule (and Futures Rule does not apply)	C Supplementary OTC Rule (and Futures Rule applies as varied or supplemented)	If not referred to in column B or C:	
			D Futures Rule applies	E Futures Rule not relevant (and does not apply)
7.6			Applicable	
7.7			Applicable	
7.8			Applicable	
7.9			Applicable	
7.10			Applicable	
8.1	3.2, 3.3			
8.2			Applicable	
8.3	3.3			
8.4	3.3			
8.5		3.3		
8.6			Applicable	
8.7			Applicable	
9.1		4.5(d)		
9.2			Applicable	
9.3			Applicable	
9.4			Applicable	
9.5				Not relevant
9.6			Applicable	
9.7			Applicable	
9A.1			Applicable	
9A.2			Applicable	
9A.3.8			Applicable	
10.9			Applicable	
10.11			Applicable	
10.12		2.13		
10.13			Applicable	
10.14			Applicable	
10.18			Applicable	
11.1			Applicable	
11.2			Applicable	
12.1			Applicable	
12.6			Applicable	
12B				Not relevant

A Futures Rule	B Replaced by OTC Rule (and Futures Rule does not apply)	C Supplementary OTC Rule (and Futures Rule applies as varied or supplemented)	If not referred to in column B or C:	
			D Futures Rule applies	E Futures Rule not relevant (and does not apply)
13			Applicable	
14			Applicable	
15				Not relevant
16			Applicable	
17			Applicable	
18			Applicable	
19			Applicable	
20			Applicable	
21			Applicable	
30	4.1, 4.5			
31.1	4.3			
31.2	4.5			
31.3	4.6			
31.4	4.2			
31.5(a)	4.4			
31.5(b)				Not relevant
31.6	4.2, 4.5			
31.7				Not relevant
31.8			Applicable	
31A				Not relevant
32				Not relevant
33	4.1 <del>23</del>			
34		2.9		
35				Not relevant
36				Not relevant
37				Not relevant
40	5.1			
41.1			Applicable	
41.2			Applicable	
41.3			Applicable	
41.4			Applicable	
41.5			Applicable	
41.6			Applicable	

A Futures Rule	B Replaced by OTC Rule (and Futures Rule does not apply)	C Supplementary OTC Rule (and Futures Rule applies as varied or supplemented)	If not referred to in column B or C:	
			D Futures Rule applies	E Futures Rule not relevant (and does not apply)
41.7			Applicable	
41.8				Not relevant
41A				Not relevant
42			Applicable	
43.1	5.2, 5.3			
43.2	5.4			
43.3	5.4			
43.4	5.4			
43.5	5.5			
43A				Not relevant
44.1	5.7			
44.2	5.7			
44.3				Not relevant
44.4	5.8			
44.5			Applicable	
44.6			Applicable	
44.7			Applicable	
44.8			Applicable	
44A				Not relevant
45	5.6			
45A				Not relevant
46				Not relevant
47.1				Not relevant
47.2			Applicable	
47.3			Applicable	
47.4			Applicable	
48				Not relevant
49	5.10			
50				Not relevant
51				Not relevant
52				Not relevant
53				Not relevant
54				Not relevant

A Futures Rule	B Replaced by OTC Rule (and Futures Rule does not apply)	C Supplementary OTC Rule (and Futures Rule applies as varied or supplemented)	If not referred to in column B or C:	
			D Futures Rule applies	E Futures Rule not relevant (and does not apply)
60				Not relevant
61				Not relevant
62				Not relevant
63				Not relevant
63A				Not relevant
64				Not relevant
70			Applicable	
71.1		6.3		
71.3		6.4		
72.1		6.6		
72.1A			Applicable	
72.2		6.6		
72.3		6.7		
72.4			Applicable	
73		6.7		
74			Applicable	
75			Applicable	
75A			Applicable	
76			Applicable	
80			Applicable	
81			Applicable	
82			Applicable	
90		8.1		
92.1		8.12		
92.2			Applicable	
92.3				Not relevant
93.1			Applicable	
93.2			Applicable	
93.3		8.5		
93.4		8.10		
93.5			Applicable	
93.6			Applicable	
93.7		8.7		

A Futures Rule	B Replaced by OTC Rule (and Futures Rule does not apply)	C Supplementary OTC Rule (and Futures Rule applies as varied or supplemented)	If not referred to in column B or C:	
			D Futures Rule applies	E Futures Rule not relevant (and does not apply)
93.8		8.9		
94			Applicable	
95			Applicable	
96				Not relevant
97			Applicable	
99			Applicable	
101			Applicable	
102				Not relevant
103			Applicable	
104			Applicable	
105			Applicable	
106			Applicable	
107			Applicable	
110		1.2		
111			Applicable	
112			Applicable	
113			Applicable	
114	4.3			
115		2.15		
116			Applicable	
117			Applicable	
118			Applicable	
119			Applicable	
120			Applicable	
121			Applicable	
122			Applicable	
123			Applicable	
124			Applicable	
125			Applicable	

# Schedule 2 – OTC Commitment

*This schedule sets out the manner of calculating the OTC Commitments.*

## 1 OTC Commitment

The OTC Commitment for each OTC Participant is comprised of:

- (a) a Fixed OTC Commitment as set out in paragraph 2 (Fixed OTC Commitment) below; and
- (b) a Variable OTC Commitment calculated in the manner set out in paragraph 3 (Variable OTC Commitment) below.

## 2 Fixed OTC Commitment

The Fixed OTC Commitment of each OTC Participant is five million dollars (\$5,000,000).

## 3 Variable OTC Commitment

### 3.1 Variable OTC Commitment Calculations

The following are the calculations (and the terms relevant to them) which are to be performed by ASX Clear (Futures) in order to calculate the Variable OTC Commitment of each OTC Participant in respect of each Quarter:

Aggregate Daily Average Initial Margin: For a Calculation Period, the sum of the Daily Average Initial Margin for all OTC Participants for that Calculation Period:

- (a) *excluding* the Daily Average Initial Margin of any OTC Participant which is not to have a Variable OTC Commitment at the commencement of the Quarter related to that Calculation Period; and
- (b) *including* ASX Clear (Futures)' estimation of the Daily Average Initial Margin of each entity which will be an OTC Participant as at the commencement of the Quarter related to that Calculation Period.

Aggregate Fixed OTC Commitment: For a Calculation Period, is equal to the total Fixed OTC Commitment received by ASX Clear (Futures).

Aggregate OTC Commitment: One hundred million dollars (\$100,000,000).

Aggregate Variable OTC Commitment: For a Calculation Period, is equal to the greater of zero and:

- (a) the Aggregate OTC Commitment  
*minus*
- (b) the Aggregate Fixed OTC Commitment.

Calculation Period:	<p>In respect of a Quarter, the period:</p> <ul style="list-style-type: none"> <li>(a) from, and including, the 11<sup>th</sup> day of the final month of the Quarter which immediately preceded the immediately preceding Quarter;</li> <li>(b) to, and including, the 10<sup>th</sup> day of the final month of the immediately preceding Quarter.</li> </ul>
Daily Average Initial Margin:	<p>For an OTC Participant in respect of a Calculation Period is equal to:</p> <ul style="list-style-type: none"> <li>(a) the sum of that OTC Participant's OTC Initial Margin (calculated as the aggregate OTC Initial Margin with respect to both the House Clearing Account and the Client Clearing Account) on each Business Day in that Calculation Period <i>divided by</i></li> <li>(b) the number of Business Days in that Calculation Period.</li> </ul>
Quarter:	<p>Each three month period:</p> <ul style="list-style-type: none"> <li>(a) starting on 1 March, 1 June, 1 September and 1 December of each year; and</li> <li>(b) ending on 30 May, 31 August, 30 November and 28 February (or 29 February in a leap year), respectively.</li> </ul>
Rounding:	<p>Each OTC Variable Commitment will be rounded to the nearest multiple of ten thousand dollars on the basis that an amount of \$5,000 and above is rounded up and an amount of \$4,999.99 down provided that the rounding must ensure that ASX Clear (Futures) has exactly the Aggregate Variable OTC Commitment required.</p>
Variable OTC Commitment:	<p>For an OTC Participant in respect of a Quarter is equal to:</p> <ul style="list-style-type: none"> <li>(a) the Aggregate Variable OTC Commitment <i>multiplied by</i></li> <li>(b) that OTC Participant's Variable OTC Commitment Proportion,</li> </ul> <p>each in respect of the relevant Calculation Period.</p>

Variable OTC Commitment Proportion	For an OTC Participant in respect of a Calculation Period is equal to (expressed as a percentage):
	(a) the Daily Average Initial Margin of that OTC Participant
	<i>divided by</i>
	(b) the Aggregate Daily Average Initial Margin, each in respect of that Calculation Period.

### 3.2 Timing of Variable OTC Commitment Calculations

The Variable OTC Commitment for each OTC Participant will be calculated by ASX Clear (Futures) so as to take effect from the first day of each Quarter (as of midnight on the last day of the immediately preceding Quarter).

ASX Clear (Futures) will notify each OTC Participant of its Variable OTC Commitment for a Quarter before the close of business of the seventeenth day of the final month of the previous Quarter (or, if that day is not a Business Day, the next following Business Day).

Each OTC Participant must complete any adjustments to its Variable OTC Commitment for a new Quarter before 10.30am (Sydney time) on the second last Business Day of the previous Quarter.

If an OTC Participant's Variable OTC Commitment ceases on a day other than the first day of a Quarter then it is at ASX Clear (Futures)' discretion as to the date when the OTC Variable OTC Commitments of all OTC Participants should be adjusted.

## 4 Transitional Arrangements

The calculations in this Schedule 2 are subject to the following transitional arrangements:

During the Transitional Period, the Variable OTC Commitment of each OTC Participant in respect of the Initial Period and each subsequent Quarter (including any OTC Participant that is admitted during such Initial Period or Quarter) will be equal to:

- (a) (where there are eight or fewer OTC Participants) \$7,500,000; or
- (b) (where there are more than eight OTC Participants) the amount calculated as follows (where N is the number of OTC Participants including any new OTC Participant):

$$[\$100,000,000 - (N \times \$5,000,000)] / N$$

If there are more than eight OTC Participants ASX Clear (Futures) will recalculate Variable OTC Commitments prior to the commencement of each Quarter and at the time at which a new OTC Participant is admitted.

*Note: The Fixed OTC Commitment of each OTC Participant will be \$5,000,000 in accordance with this Schedule 2.*

**Initial Period** means the period from the effective date of the OTC Rule amendments as notified to Clearing Participants to (but excluding) 1 September 2013.

**Transitional Period** means the period from the first day of the Initial Period to the end of the Quarter in which the first Trigger Event occurs.

**Trigger Event** means:

- (a) all of the following conditions are satisfied:
  - (i) there are eight or more OTC Participants;
  - (ii) the aggregate OTC Initial Margin is more than \$500,000,000; and
  - (iii) at least four OTC Participants have each contributed at least 15 per cent of the aggregate OTC Initial Margin;
- (b) all OTC Participants have agreed that the transitional arrangements should end; or
- (c) a competent regulatory authority has written to ASX Clear (Futures) requesting that the transitional arrangements end.

## 5 New OTC Participants

The calculation of the Variable OTC Commitment for an OTC Participant not previously included in the quarterly recalculation (referred to as **New OTC Participant**) will be estimated by ASX Clear (Futures). Any estimates by ASX Clear (Futures) will be final and not be open to dispute. ASX Clear (Futures) may take into account any of the factors included in clauses 10.1, 10.2, 10.3 and 10A of Schedule 10 of the Futures Rules, but is not required to do so nor limited to these factors. For the purposes of those clauses, 'New Clearing Participant' is taken to refer to a New OTC Participant, and 'Variable Commitment' is taken to refer to Variable OTC Commitment.

# Schedule 3 – Default Management Process

## 1 Default Management Groups

### 1.1 Establishment of DMGs

ASX Clear (Futures) will establish a default management group (each referred to as a **DMG**) in respect of each OTC Transaction Type for the purpose of advising and assisting ASX Clear (Futures) with respect to all DMG Matters (as defined below).

### 1.2 DMG Procedures

Each DMG is governed by the terms set out in the default management group procedures as contained in Schedule 3 to the OTC Handbook (referred to as the **DMG Procedures**) from time to time. The DMG Procedures as at a particular time form part of the OTC Handbook at that time.

### 1.3 Participating DMG Member Institutions

ASX Clear (Futures) will inform each OTC Participant selected to participate in a DMG (referred to as a **Participating DMG Member Institutions**) at least three months before the establishment of the relevant DMG. Participating DMG Members must comply with the duties and responsibilities set out in the OTC Rules and the DMG Procedures.

### 1.4 DMG Matters

ASX Clear (Futures) may choose to convene a meeting of one or more DMGs in any of the following circumstances:

- (a) upon the occurrence of a Default;
- (b) upon the occurrence of a Termination;
- (c) for OTC Default Simulations (as defined in Paragraph 6 (OTC Default Simulations) below);
- (d) to obtain advice on any of the following matters (referred to as **DMG Matters**) as thought appropriate by ASX Clear (Futures):
  - (i) the Open Contracts which are to be Terminated Open Contracts and their respective Termination Times in accordance with OTC Rule 6.6 (Termination and Terminated Open Contracts);
  - (ii) the establishment of DM Hedging Transactions in accordance with Paragraph 2 (DM Hedging Transactions and DM Hedging Transaction Costs), including the selection of the relevant counterparties and the relevant hedging terms and strategy, and the assistance in the execution of DM Hedging Transactions;
  - (iii) the entry into of Independent DM Transactions pursuant to (and as defined under) Paragraph 3 (Independent DM Transactions);
  - (iv) the holding of one or more DM Auctions pursuant to (and as defined under) Paragraph 4 (DM Auctions), including the timing, the procedures and the terms and conditions of a DM Auction;

- (v) determining the Auction Pool Risk Weighting for each Auction Pool and the price at which a Bid (as defined in the DM Auction Procedures) in a particular DM Auction will be taken to be an Uneconomic Price in accordance with (and as defined under) Paragraph 4 (DM Auctions); and
- (vi) any further matters relating to the consequences and risks of a Default or Termination; and
- (e) to obtain advice related to default management in any other circumstances as considered appropriate by ASX Clear (Futures), including for the purposes described in DMG Paragraph 9.2 (Regular meetings) as set out in Schedule 3 of the OTC Handbook.

## 1.5 Role of DMG

Each DMG will advise, assist and make proposals to ASX Clear (Futures) with respect to the relevant DMG Matters. ASX Clear (Futures) will at all times maintain the ultimate decision on whether and under what terms and conditions the DMG proposals are implemented or not.

## 1.6 DMG Members

The members of a DMG (referred to as the **DMG Members**) are appointed in accordance with the DMG Procedures. The DMG Members remain employees of their Participating DMG Member Institution (or of such Related Body Corporate of the Participating DMG Member, as applicable) and do not, by being a DMG Member, become employees, officers or representatives of ASX Clear (Futures).

Whenever a DMG Member assists ASX Clear (Futures) in the execution of DM Hedging Transactions or other legal declarations, such DMG Member will not have the rights of, or be deemed to be, an attorney or agent of ASX Clear (Futures).

Each OTC Participant accepts and agrees (on behalf of itself, its Related Bodies Corporate and its CPM clients) that:

- (a) representatives of Participating DMG Member Institutions serving on the DMG are doing so in order to assist ASX Clear (Futures) in ensuring the on-going integrity of the clearing facility;
- (b) representatives of Participating DMG Member Institutions serving on the DMG and their employers will have no liability for disinterested advice or actions, mandated or otherwise, that are undertaken as part of the Default Management Process and to waive any claim that may arise against those representatives or their employers in connection with such disinterested advice or actions. However, nothing in this Paragraph 1.6 (DMG Members) will exclude or waive the liability of such representatives and employers for any personal injury or death caused by their negligence or for any fraud or wilful default on the part of such representatives and employers;
- (c) representatives of Participating DMG Member Institutions serving on the DMG (each referred to as a **Protected Person**) will, to the extent legally possible, not have any fiduciary duties or other duties to protect third parties in relation to ASX Clear (Futures), any directors, managers or officers of it, OTC Participants, the Defaulting OTC Participant(s) or its clients or any other person (each a **Non-protected Person**) by reason of such service as a DMG Member; and

- (d) to the extent that, for any reason, a Protected Person has any such duties and liabilities relating to its status as a DMG Member to a Non-protected Person, such Protected Person acting under the DMG Procedures will not be liable to such Non-protected Person for breach of any such duty if they relied in good faith on the DMG Procedures, the OTC Rules or the OTC Handbook.

## 1.7 ASX Clear (Futures) dealings with DMG

ASX Clear (Futures) agrees that, in exercising its rights and obligations in consulting with the DMG pursuant to the Default Management Process, it will use all reasonable commercial endeavours to agree a common position with the DMG, provided that nothing in the OTC Rules or the OTC Handbook will prevent ASX Clear (Futures) acting in a way which it reasonably determines necessary to manage its risk or otherwise meet its continuing regulatory obligations including those applicable to it as a CS facility licensee. If ASX Clear (Futures) does not follow the recommendations or advice of the DMG, ASX Clear (Futures) will provide a notice in writing to the DMG Chairman setting out its reasons for not following such recommendations or advice. ASX Clear (Futures) will not be required to provide such reasons or information relating to reasons where that information is commercially sensitive.

## 2 DM Hedging Transactions and DM Hedging Transaction Costs

At any time after one or more OTC Participant Defaults, ASX Clear (Futures) may in its discretion enter into transactions in order to hedge the effects of the Termination of one or more OTC Open Contracts and other Terminable Open Contracts which has occurred or which may occur as a result of an OTC Participant's Default (each of these transactions are referred to as a **DM Hedging Transaction**).

DM Hedging Transactions may be of any OTC Transaction Type or class of Terminable Open Contract of a Defaulting OTC Participant. The costs and expenses incurred in connection with the entry into DM Hedging Transactions are referred to as **DM Hedging Transaction Costs**.

ASX Clear (Futures) may request one or more Participating DMG Members (as defined in the OTC Handbook) of a DMG to assist ASX Clear (Futures) in the execution of DM Hedging Transactions.

ASX Clear (Futures) will at all times maintain the ultimate decision on whether or not and under what terms and conditions a DM Hedging Transaction is executed.

However, nothing in this Paragraph 2 (DM Hedging Transactions and DM Hedging Transaction Costs) restricts ASX Clear (Futures) entering into hedging or replacement transactions in the normal course of its business.

## 3 Independent DM Transactions

At any time after one or more OTC Participant Defaults, ASX Clear (Futures) may in its discretion, enter into independent trades to establish new OTC Open Contracts or other Open Contracts which, taken as a whole, are equivalent to all or some of the Terminated Open Contracts and DM Hedging Transactions, as deemed appropriate by ASX Clear (Futures) in consultation with the relevant DMG(s) (each an **Independent DM Transaction**).

However, before a DM Auction, ASX Clear (Futures) will enter into Independent DM Transactions against a recommendation of the relevant DMG(s) only if the entering

into such trades does not result in an application of the Commitment of the OTC Participants other than the relevant Defaulted OTC Participant in accordance with Part 7 (Procedures on a Default) of the Futures Rules and if the terms and conditions of the resulting Open Contracts are fixed prior to entering into the respective trades.

ASX Clear (Futures) will not be entitled to Invoice Back or Force Allocate any Terminated Open Contracts.

## 4 DM Auctions

### 4.1 DM Auctions and DM Auction Transactions

If ASX Clear (Futures) (in consultation with the relevant DMG) determines that it is appropriate, then one or more auctions (each referred to as a **DM Auction**) is to be conducted to establish new OTC Open Contracts or other Open Contracts specified by ASX Clear (Futures) which, taken as a whole, are equivalent to all or some of the Terminated Open Contracts and/or DM Hedging Transactions (each is referred to as a **DM Auction Transaction**).

### 4.2 DM Auction Procedures

DM Auctions and all Bids made in respect of them are governed by the procedures set out in Schedule 4 (Default Management Auction Procedures) of the OTC Handbook (referred to as the **DM Auction Procedures**) from time to time.

### 4.3 Auction Pools and Auction Pool Weighting

For the purpose of conducting DM Auctions, ASX Clear (Futures) (after consultation with the relevant DMGs) is to determine the groups of DM Auction Transactions which are to be the subject of separate DM Auctions (each referred to as an **Auction Pool**). ASX Clear (Futures) may include a single OTC Transaction Type in more than one Auction Pool and a single DM Auction Transaction may be split into multiple transactions by ASX Clear (Futures) with each transaction being included in a different Auction Pool as a separate DM Auction Transaction. DM Auction Transactions which related to Client Positions and House Positions, and which related to different Defaulted Clearing Participants, may be included in the same Auction Pool. Also, DM Auction Transactions denominated in different currencies may be included in the same Auction Pool.

If there is more than one Auction Pool then ASX Clear (Futures), in consultation with the relevant DMGs, is to calculate a risk weighting multiplier attributable to each Auction Pool (each an **Auction Pool Risk Weighting**). If there is only a single Auction Pool then the Auction Pool Risk Weighting of that Auction Pool is one. The Auction Pool Risk Weighting applicable to an Auction Pool is to be notified to each Mandatory OTC Participant in the DM Auction for such Auction Pool before the relevant DM Auction commences.

### 4.4 Auction Units

For the purpose of conducting DM Auctions ASX Clear (Futures) (after consultation with the relevant DMGs) is to determine if each Auction Pool is to be separated into homogenous units (each referred to as an **Auction Unit**). If no separation is to take place then the Auction Pool is taken to comprise a single Auction Unit. If there is

more than one Auction Unit in an Auction Pool then each Auction Unit must be composed of identical components of DM Auction Transactions.

## 4.5 Mandatory OTC Participants

OTC Participants:

- (a) which are authorised to act as OTC Participants with respect to all DM Auction Transactions comprised in the relevant Auction Pool that are to be OTC Open Contracts;
- (b) having, or having access to, the necessary account structure to settle all DM Auction Transactions comprised in the relevant Auction Pool;
- (c) which, at the time of default of the relevant Defaulted OTC Participant, have at least one OTC Open Contract of the same OTC Transaction Type(s) and currency as the DM Auction Transactions comprised in the relevant Auction Pool; and
- (d) with respect to which no Default has occurred and is continuing,

(each referred to as a **Mandatory OTC Participant**), must participate in each DM Auction corresponding to the relevant Auction Pool in accordance with the DM Auction Procedures.

However, ASX Clear (Futures) may, in its sole discretion, waive the requirement that a Mandatory OTC Participant participate in a DM Auction related to such Mandatory OTC Participant, and in such circumstances the OTC Participant will not be a Mandatory OTC Participant in respect of such DM Auction.

### ***Explanatory Note:***

*The OTC Transaction Types are set out in Schedule 2 (OTC Terms) of the OTC Handbook and are not defined with reference to tenor or currency.*

## 4.6 Uneconomic Price

For each Auction Pool, ASX Clear (Futures), in consultation with the relevant DMG, will determine a price (referred to as the **Uneconomic Price**) at or beneath which a Bid in a particular DM Auction will be taken to be uneconomic. The Uneconomic Price for a DM Auction will not be disclosed prior to the Expiration Time of the DM Auction.

## 5 Juniorisation

### 5.1 Application

This Paragraph 5 (Juniorisation) applies if ASX Clear (Futures) determines that, following the completion of all relevant DM Auctions:

- (a) in accordance with Futures Rule 73 (*Loss*), it has suffered a Loss, and
- (b) the OTC Commitment of OTC Participants would be applied to meet that Loss in accordance with Futures Rule 7.1; and
- (c) the Loss is not sufficient to require the application of the entire amount of OTC Commitment which is able to be applied in accordance with Futures Rule 7.1.

Otherwise, this Paragraph 5 (Juniorisation) does not apply.

**Explanatory Note:** *Juniorisation under this Paragraph 5 of the Default Management Process operates across the two tranches of OTC Commitments in Futures Rule 7.1(d) and (f) and not within each of those tranches.*

## 5.2 Weighted OTC Commitment Amount

For each Auction Pool, ASX Clear (Futures) is to determine each Mandatory OTC Participant's **Weighted OTC Commitment Amount**. This is equal to:

- (a) the OTC Participant's OTC Commitment  
*multiplied by*
- (b) the Auction Pool Weighting for that Auction Pool.

For this purpose:

**Auction Pool Weighting** for an Auction Pool is:

- (a) the Risk Weighted IM Value for that Auction Pool  
*divided by*
- (b) the sum of the Risk Weighted IM Values for each Auction Pool.

**Risk Weighted IM Value** for an Auction Pool is the Auction Pool IM Value for that Auction Pool *multiplied by* the Auction Pool Risk Weighting for that Auction Pool.

**Auction Pool IM Value** is the value of Initial Margin allocated by ASX Clear (Futures) to that Auction Pool on the basis of the Terminated Open Contracts and DM Hedging Transactions comprised in such Auction Pool.

However, ASX Clear (Futures) is to adjust the Weighted OTC Commitment Amounts to take into account the re-weighting which it determines is required if any OTC Participant is a Mandatory OTC Participant for less than all of the Auction Pools.

## 5.3 Priority Groups and Commitment Application Amounts

In respect of each Auction Pool, ASX Clear (Futures) is to:

- (a) determine which Mandatory OTC Participants (referred to as the **Non-Contributing Participants**) have failed to submit a Bid for the DM Auction corresponding to such Auction Pool which is greater than its Uneconomic Price, including those which have failed to submit any Bid;
- (b) rank all Mandatory OTC Participants (other than any Non-Contributing Participants) by the Bids which they submitted in the DM Auction corresponding to such Auction Pool in order of price from the highest price Bid to the lowest price Bid. In doing this:
  - (i) if a Mandatory OTC Participant submits multiple Bids in respect of a DM Auction, the lowest such Bid submitted by the Mandatory OTC Participant will be used by ASX Clear (Futures) in determining the OTC Participant's ranking for that DM Auction; and
  - (ii) if two or more identical Bids are received from separate Mandatory OTC Participants for the same DM Auction, for the purposes of ranking the Bids of such Mandatory OTC Participants in accordance with this paragraph 5 only, each of the OTC Participants will rank equally in respect of that DM Auction; and
- (c) rank OTC Participants which were not Mandatory OTC Participants in any DM Auction equally with the OTC Participants who submitted the highest Bids for each DM Auction.

ASX Clear (Futures) is to group the OTC Participants into **Priority Groups** using these rankings, from those who provided the highest Bids in DM Auctions to those who provided the lowest Bids in DM Auctions. Each Priority Group is comprised of the OTC Participants who have been allocated the same ranking by ASX Clear (Futures) with respect to an Auction Pool, provided that those OTC Participants that have been ranked equally in accordance with paragraph 5.3(b)(ii) above, will be grouped equally into multiple Priority Groups according to the number of Mandatory OTC Participants who submitted identical Bids for that DM Auction. As a result of this process, an OTC Participant may be included in multiple Priority Groups if it was required to have submitted Bids in multiple DM Auctions.

The order of the Priority Groups will start with the Priority Group comprised of those OTC Participants (other than the Non-Contributing Participants) who made the highest bids in each DM Auction and forming Priority Groups of the OTC Participants who made second ranking, third ranking and progressively lower ranking Bids in each DM Auction (so that there is a Priority Group comprised of the highest bidders in each DM Auction, a Priority Group comprised of the second highest bidders in each DM Auction and so on). Under the lowest such Priority Group is to rank a Priority Group consisting of the Non-Contributing Participants in the DM Auctions which is to rank lowest behind all other Priority Groups.

However, if there is no OTC Participant participating in a particular DM Auction represented in a particular Priority Group (because, for example, there were less Bids made with respect to that DM Auction) then ASX Clear (Futures) may (in its sole discretion) change the Priority Group which does not contain a representative of that DM Auction. In doing so, ASX Clear (Futures):

- (A) must not change the overall order of the different Bids (from highest to lowest) made in respect of that DM Auction;
- (B) must not alter the ranking of an OTC Participant with respect to an Auction Pool so that the OTC Participant is ranked equally with the Non-Contributing Participants where it would otherwise be included in a higher ranking Priority Group; but
- (C) subject to (B) above, may determine that any Priority Group is not to contain that DM Auction, provided that ASX Clear (Futures) may not exclude that DM Auction from the Priority Group consisting of the Non-Contributing Participants.

Using the rankings of Mandatory OTC Participants in Priority Groups, and the Weighted OTC Commitments of Mandatory OTC Participant's applicable to each Auction Pool, ASX Clear (Futures) is to determine the aggregate amount of the Weighted OTC Commitment Amounts of each Mandatory OTC Participant applicable to each Priority Group. OTC Participants which were not Mandatory Participants in any DM Auction are to have an aggregate Weighted OTC Commitment Amount in the highest ranking Priority Group which is equal to their OTC Commitment.

#### **5.4 Application of Losses to OTC Commitment**

The OTC Commitments of OTC Participants are to be applied to meet a Loss in accordance with Futures Rule 7.1 in the order of the OTC Participants included in the lowest ranking Priority Group first, OTC Participants included in the second lowest ranking Priority Group second, then progressively upward to the OTC Participants in each higher ranking Priority Group, until the Loss has been met in full. The application of the OTC Commitments of the OTC Participants included in a Priority Group in accordance with Futures Rule 7.1 is to be made in proportion to, and up to the limit of, their respective aggregate Weighted OTC Commitments for

that Priority Group. Once OTC Participants' aggregate Weighted OTC Commitments have been reached for a Priority Group then the OTC Commitments of the next highest ranking Priority Group is to be applied to the remaining Loss in the same way.

Schedule 5 (Juniorisation Worked Examples) of the OTC Handbook provides examples of how Losses of ASX Clear (Futures) are applied to the OTC Commitment of the OTC Participants in accordance with this paragraph 5.

## **6 OTC Default Simulations**

ASX Clear (Futures) will arrange for at least one and no more than three default simulations per year to ensure the best practicable level of preparation for any Default of an OTC Participant (each referred to as an **OTC Default Simulation**). The OTC Participants will support ASX Clear (Futures) in carrying out any such OTC Default Simulation.

Upon request of ASX Clear (Futures), each OTC Participant will in the course of such OTC Default Simulations act as potential counterparty for a simulated DM Hedging Transaction and will support any simulated DM Auction, as further described in the DM Auction Procedures, with respect to the Auction Pools that such OTC Participant is active in.

## **7 Information Regarding Default Management Process**

Whenever the default management process is implemented by ASX Clear (Futures) in respect of a Defaulted OTC Participant, ASX Clear (Futures) will endeavour, in consultation with each relevant DMG, to keep OTC Participants reasonably informed of the progress of the default management process.

Nothing in this Paragraph 7 will require ASX Clear (Futures) to disclose information in respect of the default management process which, in the reasonable opinion of ASX Clear (Futures), may be subject to obligations of confidentiality, may constitute market sensitive data or is, in the opinion of ASX Clear (Futures), inappropriate for disclosure to OTC Participants.

**End of Section.**



# ASX OTC HANDBOOK

<b>1</b>	<b>INTRODUCTION .....</b>	<b>5</b>
1.1	ASX Clear (Futures) and OTC Handbook .....	5
1.2	Futures Rules and OTC Rules .....	5
1.3	Meanings of terms.....	5
1.4	Approved Trade Source Systems.....	5
1.5	OTC Terms and OTC Transaction Types .....	5
1.6	Operating times and calendars.....	5
1.7	Interpretation.....	6
1.8	Number .....	6
1.9	Headings.....	6
<b>2</b>	<b>PARTICIPATION AND GENERAL.....</b>	<b>7</b>
2.4	Application to become an OTC Participant.....	7
2.6	Fees and OTC Commitment .....	7
2.14	Access arrangements and trade authorisation .....	7
2.15	Client Sub-Accounts.....	7
<b>3</b>	<b>COMMITMENTS AND FINANCIAL REQUIREMENTS .....</b>	<b>8</b>
3.2	OTC Commitment .....	8
<b>4</b>	<b>REGISTRATION.....</b>	<b>8</b>
4.3	Submission of OTC Transactions.....	8
4.5	Acceptance for registration.....	9
4.6	Creation of OTC Open Contracts .....	9
4.11	Backloading .....	10
4.12	Transfer of OTC Open Contracts .....	10
4.13	OTC Portfolio Compression .....	11
4.14	Netting of OTC Open Contracts .....	11
<b>5</b>	<b>ACCOUNTS AND MARGIN .....</b>	<b>12</b>
5.2	Transfer of OTC Initial Margin .....	12
5.3	Securities as OTC Initial Margin .....	12
5.5	Portfolio Margining .....	12
5.6	OTC Intra day Margin and OTC Extra Margin .....	13
5.7	OTC Daily Closing Value.....	13
5.8	OTC Daily Variation Margin.....	14
5.9	Price Alignment Interest.....	14
<b>6</b>	<b>DEFAULT .....</b>	<b>15</b>
	<b>Schedule 1 – OTC Eligibility Criteria.....</b>	<b>16</b>
1	Introduction .....	16
2	Global Eligibility Rules.....	16

3	IRS Specific Eligibility Rules.....	17
4	OIS Specific Eligibility Rules .....	22
5	Basis-Swap Specific Eligibility Rules.....	26
	Appendix A: ASX Supported Holiday Centres.....	31
<b>Schedule 2 – OTC Terms .....</b>		<b>32</b>
1	Interpretation.....	32
2	Economic Terms .....	32
3	Standard Terms .....	34
<b>Schedule 3 – Default Management Group Procedures .....</b>		<b>36</b>
1	Introduction .....	36
2	Definitions .....	36
3	DMG Establishment .....	36
4	Selection of Participating DMG Member Institutions.....	36
5	Designated DMG Members.....	37
6	Acceptance by ASX Clear (Futures).....	39
7	Term of appointment.....	40
8	Office holders.....	41
9	Convening DMG Meetings .....	42
10	Conduct of DMG Meetings.....	43
11	Statements of DMG.....	45
12	Conduct of DMG Members.....	45
13	Compensation.....	47
14	Governing Law; Place of Jurisdiction .....	47
15	Amendments.....	47
<b>Schedule 4 – Default Management Auction Procedures.....</b>		<b>48</b>
1	DM Auction Procedures .....	48
2	Definitions.....	48
3	DM Auctions and DM Auctions Price.....	48
4	Participation in DM Auctions .....	48
5	Pre-Auction Procedures .....	49
6	Bidding Procedures.....	50
7	Determination of Winning Bid and Auction Price .....	51
8	Auction Format.....	52
9	Settlement of Auction Price .....	54
10	Irregularities .....	54
11	Representations, Warranties and Undertakings .....	55
12	Governing law; Place of jurisdiction.....	57
13	Amendment of DM Auction Procedures .....	57
	Addendum – Default Management Auction Process Timeline.....	58
	ANNEX – Form of Specific Terms for DM Auctions.....	59
<b>Schedule 5 – Juniorisation Worked Examples .....</b>		<b>61</b>
<b>Schedule 6 – Allocation of Loss Worked Example.....</b>		<b>74</b>
1	Allocation of Loss following default management process.....	74
<b>Schedule 7 – Attestation .....</b>		<b>76</b>
<b>1</b>	<b>INTRODUCTION .....</b>	<b>3</b>
1.1	ASX Clear (Futures) and OTC Handbook .....	3
1.2	Futures Rules and OTC Rules .....	3

1.3	Meanings of terms.....	3
1.4	Approved Trade Source Systems.....	3
1.5	OTC Terms and OTC Transaction Types.....	3
1.6	Operating times and calendars.....	3
1.7	Interpretation.....	4
1.8	Number.....	4
1.9	Headings.....	4
<b>2</b>	<b><u>PARTICIPATION AND GENERAL</u></b> .....	<b>5</b>
2.4	Application to become an OTC Participant.....	5
2.6	Fees and OTC Commitment.....	5
2.14	Access arrangements and trade authorisation.....	5
2.15	Client Sub-Accounts.....	5
<b>3</b>	<b><u>COMMITMENTS AND FINANCIAL REQUIREMENTS</u></b> .....	<b>6</b>
3.2	OTC Commitment.....	6
<b>4</b>	<b><u>REGISTRATION</u></b> .....	<b>6</b>
4.3	Submission of OTC Transactions.....	6
4.5	Acceptance for registration.....	7
4.6	Creation of OTC Open Contracts.....	7
4.11	Backloading.....	8
4.12	Re-bilateralisation.....	8
4.13	Transfer of OTC Open Contracts.....	8
4.14	OTC Portfolio Compression.....	8
4.15	Netting of OTC Open Contracts.....	9
<b>5</b>	<b><u>ACCOUNTS AND MARGIN</u></b> .....	<b>9</b>
5.2	Transfer of OTC Initial Margin.....	9
5.3	Securities as OTC Initial Margin.....	10
5.5	Portfolio Margining.....	10
5.6	OTC Intra day Margin and OTC Extra Margin.....	10
5.7	OTC Daily Closing Value.....	11
5.8	OTC Daily Variation Margin.....	11
5.9	Price Alignment Interest.....	12
<b>6</b>	<b><u>DEFAULT</u></b> .....	<b>12</b>
	<b><u>Schedule 1 – OTC Eligibility Criteria</u></b> .....	<b>13</b>
1	Introduction.....	13
2	Global Eligibility Rules.....	13
3	IRS Specific Eligibility Rules.....	14
4	OIS Specific Eligibility Rules.....	19
5	Basis-Swap Specific Eligibility Rules.....	23
	Appendix A: ASX Supported Holiday Centres.....	28
	Appendix B: Additional Trade Eligibility Criteria Applied Outside of MarkitWire.....	28
	<b><u>Schedule 2 – OTC Terms</u></b> .....	<b>29</b>
1	Interpretation.....	29
2	Economic Terms.....	29
3	Standard Terms.....	31
	<b><u>Schedule 3 – Default Management Group Procedures</u></b> .....	<b>33</b>

<u>1</u>	<u>Introduction</u>	<u>33</u>
<u>2</u>	<u>Definitions</u>	<u>33</u>
<u>3</u>	<u>DMG Establishment</u>	<u>33</u>
<u>4</u>	<u>Selection of Participating DMG Member Institutions</u>	<u>34</u>
<u>5</u>	<u>Designated DMG Members</u>	<u>34</u>
<u>6</u>	<u>Acceptance by ASX Clear (Futures)</u>	<u>36</u>
<u>7</u>	<u>Term of appointment</u>	<u>37</u>
<u>8</u>	<u>Office holders</u>	<u>39</u>
<u>9</u>	<u>Convening DMG Meetings</u>	<u>39</u>
<u>10</u>	<u>Conduct of DMG Meetings</u>	<u>40</u>
<u>11</u>	<u>Statements of DMG</u>	<u>42</u>
<u>12</u>	<u>Conduct of DMG Members</u>	<u>43</u>
<u>13</u>	<u>Compensation</u>	<u>44</u>
<u>14</u>	<u>Governing Law; Place of Jurisdiction</u>	<u>44</u>
<u>15</u>	<u>Amendments</u>	<u>44</u>
<b><u>Schedule 4 – Default Management Auction Procedures</u></b>		<b><u>45</u></b>
<u>1</u>	<u>DM Auction Procedures</u>	<u>45</u>
<u>2</u>	<u>Definitions</u>	<u>45</u>
<u>3</u>	<u>DM Auctions and DM Auctions Price</u>	<u>45</u>
<u>4</u>	<u>Participation in DM Auctions</u>	<u>46</u>
<u>5</u>	<u>Pre-Auction Procedures</u>	<u>46</u>
<u>6</u>	<u>Bidding Procedures</u>	<u>47</u>
<u>7</u>	<u>Determination of Winning Bid and Auction Price</u>	<u>49</u>
<u>8</u>	<u>Auction Format</u>	<u>50</u>
<u>9</u>	<u>Settlement of Auction Price</u>	<u>52</u>
<u>10</u>	<u>Irregularities</u>	<u>52</u>
<u>11</u>	<u>Representations, Warranties and Undertakings</u>	<u>53</u>
<u>12</u>	<u>Governing law; Place of jurisdiction</u>	<u>55</u>
<u>13</u>	<u>Amendment of DM Auction Procedures</u>	<u>55</u>
	<u>Addendum – Default Management Auction Process Timeline</u>	<u>56</u>
	<u>ANNEX – Form of Specific Terms for DM Auctions</u>	<u>57</u>
<b><u>Schedule 5 – Juniorisation Worked Examples</u></b>		<b><u>59</u></b>
<b><u>Schedule 6 – Allocation of Loss Worked Example</u></b>		<b><u>72</u></b>
<u>1</u>	<u>Allocation of Loss following default management process</u>	<u>72</u>
<b><u>Schedule 7 – Attestation</u></b>		<b><u>74</u></b>

# ASX OTC Handbook

## 1 INTRODUCTION

### 1.1 ASX Clear (Futures) and OTC Handbook

This handbook sets out procedures, timings, contract terms and other details in connection with the clearing facility operated by ASX Clear (Futures) Pty Limited in respect of over-the-counter derivatives. This handbook is referred to as the **OTC Handbook** and ASX Clear (Futures) Pty Limited is referred to as **ASX Clear (Futures)**.

### 1.2 Futures Rules and OTC Rules

This handbook refers to the Operating Rules of ASX Clear (Futures) (which are referred to as the **Futures Rules**) and the ASX OTC Operating Rules set out in the ASX OTC Rulebook (which are referred to as the **OTC Rules**).

However, the OTC Handbook does not form part of the OTC Rules or the Futures Rules. The OTC Rules prevail in the event of any inconsistency between those OTC Rules and this OTC Handbook.

### 1.3 Meanings of terms

Unless they are defined in this OTC Handbook, capitalised terms used in this OTC Handbook have the meaning which they have in the OTC Rules or, if they are not defined in the OTC Rules, in the Futures Rules.

### 1.4 Approved Trade Source Systems

The following are **Approved Trade Source Systems**:

- MarkitWire

If ASX Clear (Futures) approves additional Approved Trade Source Systems, it will notify OTC Participants.

ASX Clear (Futures) is not liable or responsible for any corruption or alteration of messages or loss of data which may take place within any Approved Trade Source System.

ASX Clear (Futures) makes no warranty (and accepts no liability) as to the effectiveness or performance or any other aspect or matter in connection with an Approved Trade Source System.

### 1.5 OTC Terms and OTC Transaction Types

The terms of OTC Open Contracts (referred to as **OTC Terms**) and the OTC Transaction Types are set out in Schedule 2 (OTC Terms).

### 1.6 Operating times and calendars

ASX Clear (Futures) will publish a circular detailing the days on which ASX Clear (Futures) will be open for business.

The OTC Clearing service will be operational during the following hours on a Business Day: 6:00am to 9:00pm Sydney time.

## 1.7 Interpretation

Unless the contrary intention appears, in this OTC Handbook:

- (a) a reference to a particular "Paragraph" is a reference to that paragraph in this OTC Handbook. Where practical, Paragraph numbering (and labelling) matches the relevant OTC Rule;
- (b) a reference to any thing (including an amount) is a reference to the whole and each part of it;
- (c) a reference to a document (including this OTC Handbook, the Futures Rules and the OTC Rules) includes any variation or replacement of it;
- (d) the word "law" includes common law, principles of equity, and laws made by parliament (and laws made by parliament include State, Territory and Commonwealth laws and regulations and other instruments under them, and consolidations, amendments, re-enactments or replacements of any of them);
- (e) a reference to Australian dollars, AUD, dollars, \$ or A\$ is a reference to the lawful currency of Australia;
- (f) a reference to US dollars, USD or US\$ is a reference to the lawful currency of the United States of America;
- (g) a reference to a time of day is a reference to Sydney time;
- (h) the word "person" includes an individual, a firm, a body corporate, an unincorporated association and an authority;
- (i) a reference to a particular person includes the person's executors, administrators, successors, substitutes (including persons taking by novation) and assigns;
- (j) the words "including", "for example" or "such as" when introducing an example, do not limit the meaning of the words to which the example relates to that example or examples of a similar kind;
- (k) a reference to the Corporations Act is a reference to the Corporations Act 2001 (Cwlth);
- (l) an expression in this OTC Handbook which deals with a matter dealt with in a provision of the Corporations Act has the same meaning that it has in that provision of the Corporations Act; and
- (m) in the interpretation of this OTC Handbook, a construction that would promote the purpose or object underlying this OTC Handbook (whether that purpose or object is expressly stated in this OTC Handbook or not) is to be preferred to a construction which would not promote that purpose or object.

## 1.8 Number

In this OTC Handbook, the singular includes the plural and the plural includes the singular.

## 1.9 Headings

Headings (including those in brackets at the beginning of paragraphs) in this OTC Handbook are for convenience only and do not affect the interpretation of this OTC Handbook.

## 2 PARTICIPATION AND GENERAL

### 2.4 Application to become an OTC Participant

An applicant intending to become an OTC Participant must lodge with ASX Clear (Futures) an ISDA Master Agreement between it and ASX Clear (Futures) which has been duly executed by it and which is in such form and substance as to be satisfactory to ASX Clear (Futures).

***{Explanatory Note: Each OTC Participant is required to enter into an ISDA Master Agreement with ASX Clear (Futures) for default management purposes only.}***

An applicant intending to become an OTC Participant must provide such legal opinions in respect of the enforceability of the OTC Rules, this OTC Handbook and, if necessary, the Futures Rules against it as ASX Clear (Futures) requires.

### 2.6 Fees and OTC Commitment

The fees applicable to becoming an OTC Participant are as published by ASX Clear (Futures) from time to time.

### 2.14 Access arrangements and trade authorisation

Access arrangements must:

- (a) comply with the OTC Participant's password security-user identification standards;
- (b) require the regular review of user privileges associated with a password including when the person using the password has a change of function within the OTC Participant (for example, from a front office to back office function); and
- (c) require a login and password to be allocated to an individual (not a team) and changed on a regular basis.

The form of Attestation is set out in Schedule 7 (Attestation).

### 2.15 Client Sub-Accounts

Without limiting the effect of Futures Rule 113.5, an OTC Participant will only request approval of a CPM Client by ASX Clear (Futures) where the CPM Client is a wholesale client (as defined under the Corporations Act) and is incorporated in a prescribed jurisdiction, or carrying on business in a prescribed jurisdiction, or acting solely on behalf of an entity that is incorporated in a prescribed jurisdiction or carrying on business in a prescribed jurisdiction.

ASX Clear (Futures) will only approve a CPM Client where it has the following data:

- (a) Client Name
- (b) Client LEI (or other identifier)
- (c) Client Address
- (d) Segregation Code (Omnibus or ICA)
- (e) Restrictions on Trading
- (f) Swapswire Participant ID

ASX reserves the right not to approve a CPM Client where it is not satisfied that the holding of Open Positions in respect of Open Contracts in a Client Sub-Account with respect to the Client will not cause ASX Clear (Futures) to breach any law, regulatory requirement or official directive, ruling or determination of any jurisdiction.

For the purpose of OTC Rule 2.15, in respect of each CPM Client, the Clearing Participant and CPM Client each represent that at least one of the following is correct:

- (a) the CPM Client is incorporated in a prescribed jurisdiction; or
- (b) the CPM Client is carrying on business in a prescribed jurisdiction (as that concept is defined under the Corporations Act); or
- (c) in respect of contracts to be registered in the Client Sub-Account maintained for the CPM Client, the CPM Client is acting on behalf of an entity or entities, that are incorporated or carrying on business in a prescribed jurisdiction.

A reference to a “prescribed jurisdiction” in this Paragraph 2.15 is to Australia or other jurisdiction designated by ASX Clear (Futures) from time to time.

### **3 COMMITMENTS AND FINANCIAL REQUIREMENTS**

#### **3.2 OTC Commitment**

An OTC Participant must provide its OTC Commitment to ASX Clear (Futures) as an amount of money in Australian dollars.

### **4 REGISTRATION**

#### **4.3 Submission of OTC Transactions**

The Approved Trade Source System will send details of the OTC Transaction to ASX Clear (Futures) once it has been bilaterally agreed.

Consent is taken to have been obtained from the OTC Participants with whom the OTC Open Contracts would be created when the relevant OTC Transaction is reported to ASX Clear (Futures) by an Approved Trade Source System.

ASX Clear (Futures) will process any such reported OTC Transaction without making any verification or investigation and, subject to the OTC Rules and the OTC Handbook, will register the OTC Transaction on the basis of the data provided to it by the Approved Trade Source System.

Upon an OTC Transaction being submitted to ASX Clear (Futures) for registration and the satisfaction of the conditions to registration set out in the OTC Rules, ASX Clear (Futures) will respond, after processing, with a message confirming the registration.

OTC Transactions submitted for registration that do not meet the product or other eligibility criteria prescribed from time to time by ASX Clear (Futures) or which contain invalid or incomplete message data will be rejected. If, at any time, ASX Clear (Futures) does not register a trade presented for registration it will send to the originating Approved Trade Source System notification of the rejection.

Submission for registration of OTC Transactions will only occur from 6:00am to 9:00pm (Sydney time) on each Business Day.

## 4.5 Acceptance for registration

The following are applicable to acceptance of an OTC Transaction for registration:

(a) **Trade Date**

If the trade date of the OTC Transaction is more than two Business Days prior to the date of initial submission for registration of the OTC Transaction in a form that satisfies the OTC Eligibility Criteria then the OTC Transaction must be submitted for backloading in accordance with OTC Rule 4.11 (Backloading).

(b) **OTC Eligibility Criteria**

The OTC Eligibility Criteria are set out in Schedule 1 (OTC Eligibility Criteria).

(c) **Limit checks**

A risk-based limit check will be conducted by ASX Clear (Futures) for each OTC Transaction submitted for registration.

If an OTC Transaction fails to pass the risk-based limit check then the OTC Participant may seek the approval of ASX Clear (Futures) to re-submit the OTC Transaction. ASX Clear (Futures) may choose whether or not to give such approval in its sole discretion and may impose such conditions as it thinks fit on granting any approval. If such approval is given then the OTC Transaction need not pass the risk-based limit check when re-submitted provided it satisfies all other conditions imposed by ASX Clear (Futures).

There is no limit check applicable to OTC Transactions submitted for backloading in accordance with OTC Rule 4.11 (Backloading).

(d) **Deferral of acceptance**

If ASX Clear (Futures) determines that the intraday calculation of the OTC Initial Margin and OTC Daily Variation Margin required from an OTC Participant is approaching the OTC Participant's exposure limit then it may defer the registration of an OTC Transaction to which that OTC Participant is, or is taken to be, a party.

This paragraph (d) does not apply to OTC Transactions submitted for backloading in accordance with OTC Rule 4.11 (Backloading).

(e) **Timing of registration of OTC Open Contracts**

If an OTC Transaction satisfies the conditions for registration in OTC Rule 4.5 (Acceptance for registration), then it is registered as an OTC Open Contract with effect from the time of receipt of the relevant submission by ASX Clear (Futures).

## 4.6 Creation of OTC Open Contracts

OTC Open Contracts created by registration of an OTC Transaction are created on the applicable OTC Terms.

Payments of amounts due under an OTC Open Contract on the next scheduled payment date after the date on which registration of the relevant OTC Transaction has taken place are to be effected in accordance with the OTC Terms for the entire calculation period. This also applies if part of the calculation period has already elapsed at the day of registration. However, ASX Clear (Futures) may make a call for OTC Intra Day Margin in respect of an OTC Open Contract on the day of its registration.

Payments under the relevant OTC Transaction that were due on or before the day of registration will not be owed under the relevant OTC Open Contract and are not subject to OTC Clearing.

#### 4.11 Backloading

Following the agreement of particulars as required by OTC Rule 4.11 (Backloading) and submission of the OTC Transaction to be backloaded, the backloaded transactions are taken to have been submitted for registration by ASX Clear (Futures).

However, registration of any backloaded transaction is subject to:

- (a) the absolute discretion of ASX Clear (Futures); and
- (b) the provision of any Margin that is required to be provided by the relevant OTC Participants in respect of the relevant backloaded transaction.

The prescribed number of Business Days is two.

#### ~~4.12 Re-bilateralisation~~

~~All removal requests must be lodged and agreed by both OTC Participants through the Approved Trade Source System.~~

~~Removal requests will be processed as follows:~~

- ~~(a) first, ASX Clear (Futures) will check that the conditions above are satisfied;~~
- ~~(b) second, ASX Clear (Futures) will calculate the net Margin impact for each OTC Participant;~~
- ~~(c) third, providing the net Margin impact is within ASX Clear (Futures)' approved limits for each OTC Participant, or ASX Clear (Futures) otherwise approves the removal, ASX Clear (Futures) will send an instruction to the Approved Trade Source System confirming the removal request is approved; and~~
- ~~(d) fourth, the Approved Trade Source System will provide an updated Trade Status to the OTC Participants, confirming the removal.~~

~~Removal is to take effect from the time that such removal is approved by ASX Clear (Futures).~~

*[Explanatory Note: the deletion of this Paragraph 4.12 is to account for the removal of the re-bilateralisation provisions, and expansion of the netting provisions in OTC Rule 4.14]*

#### ~~4.13~~<sup>12</sup> Transfer of OTC Open Contracts

Except to the extent that the Client Protection Model Provisions apply, OTC Participants can effect the transfer of an OTC Open Contract ~~can only be effected only by OTC Participants by re-bilateralisation in accordance with OTC Rule 4.12 (Re-bilateralisation)~~ each OTC Participant submitting a request for transfer in a form prescribed by ASX Clear (Futures) from time to time, and submission of a new OTC Transaction for registration in accordance with OTC Rule 4.3 (Submission of OTC Transactions).

*[Explanatory Note: the amendments to Paragraph 4.12 are to account for the removal of the re-bilateralisation provisions, and expansion of the netting provisions in OTC Rule 4.14]*

#### 4.1413 OTC Portfolio Compression

The following ~~satisfaction of the following~~ are requirements. ASX Clear (Futures) may, in its discretion, facilitate a ~~for~~ portfolio compression cycle with respect to an OTC Transaction Type:

- (a) ASX Clear (Futures) obtaining the consent in writing of the majority of OTC Participants ~~Product Committee votes to execute a portfolio compression cycle~~ not less than two months prior to the scheduled execution date of such compression cycle; and
- (b) the selected portfolio compression service provider for such OTC Transaction Type can facilitate the portfolio compression requirements ~~of the Product Committee~~.

The proceedings for any compression cycle will be notified by ASX Clear (Futures), following consultation with ~~the Product Committee~~ OTC Participants.

[Explanatory Note: the amendments to Paragraph 4.13 make OTC portfolio compression conditional on obtaining the written consent of the majority of OTC Participants instead of the Product Committee which will include both Futures and OTC Participants]

#### 4.1514 Netting of OTC Open Contracts

The conditions for the netting of OTC Open Contracts in the same Client Sub-Account or within the House Clearing Account which have equal but offsetting terms (except for the ~~nominal amount~~ Notional Amount) are:

- (a) the OTC Open Contracts must not have matured;
- ~~(b) there must be no cash flows (e.g. coupon settlement) under the OTC Open Contracts due on the day of netting;~~
- ~~(c)~~ (e) all additional payments (as referred to under the Approved Trade Source System) for those OTC Open Contracts as agreed between the parties to the OTC Open Contracts have been settled;
- ~~(d)~~ (e) the OTC Participant must have the opposite contractual position under the OTC Open Contracts to be netted; and
- ~~(e)~~ (f) the parties to the OTC Open Contracts must be identical.

No OTC Open Contract registered in the House Clearing Account of an OTC Participant may be netted against an OTC Open Contract registered in the Client Clearing Account of that OTC Participant.

Netting of OTC Open Contracts will be effected outside the operating times of the OTC Clearing service as set out in Paragraph 1.6 as an end of day process.

~~An OTC Participant may make a request for two or more OTC Open Contracts (which satisfy the conditions described above) to be netted by submitting the trade references of each OTC Open Contract to ASX Clear (Futures). If ASX Clear (Futures) accepts these OTC Open Contracts for netting, then:~~

- ~~(f) the rights and obligations under each OTC Open Contract are, as far as possible, to be set-off against each other;~~

- ~~(g) all remaining rights and obligations following such set-off are to comprise a single OTC Open Contract reflecting the net economic terms of such netted OTC Open Contracts; and~~
- ~~(h) ASX Clear (Futures) shall determine the resulting notional amount of the OTC Open Contract (if any) that replaces the netted OTC Open Contracts, and such determination shall be binding on the OTC Participant, absent manifest error.~~

An OTC Participant may make a standing request for netting of two or more OTC Open Contracts to occur automatically in respect of a Client Sub-Account where such OTC Open Contracts satisfy the conditions described above in paragraphs (a) to (ed).

*[Explanatory Note: the amendments to Paragraph 4.12 are to account for the removal of the re-bilateralisation provisions, and expansion of the netting provisions in OTC Rule 4.14]*

## 5 ACCOUNTS AND MARGIN

### 5.2 Transfer of OTC Initial Margin

The currencies, valuation haircuts and timing for providing OTC Initial Margin and additional Initial Margins (AIMs) as an amount of money are as published on [www.asx.com.au](http://www.asx.com.au), as amended from time to time.

### 5.3 Securities as OTC Initial Margin

Subject to approval and on such conditions as ASX Clear (Futures) may determine from time to time, the securities that may be provided in respect of OTC Initial Margin and additional Initial Margins (AIMs) are as published on [www.asx.com.au](http://www.asx.com.au), as amended from time to time.

ASX Clear (Futures)' nomination of eligible collateral is subject to the requirements of the Reserve Bank of Australia's Financial Stability Standards for Central Counterparties (FSS) that require accepted collateral to have low credit, liquidity and market risks and Central Counterparties to set and enforce appropriately conservative haircuts and concentration limits (refer to FSS, Standard 5).

### 5.5 Portfolio Margining

Upon request, ASX Clear (Futures) may take into account certain Open Contracts (other than OTC Open Contracts) registered in:

- (a) the OTC Participant's House Clearing Account; or
- (b) the OTC Participant's Client Clearing Account provided that the Open Contracts are held in an Individual Sub-Account of the same CPM Client and, are in respect of the same Nominated Person, if applicable,

(referred to as **Eligible Open Contracts**) in determining the amount of OTC Initial Margin required to be transferred by an OTC Participant in respect of OTC Open Contracts held in that Clearing Account, subject to the following:

- (c) the timing of allocations of Eligible Open Contracts for this purpose is as determined by ASX Clear (Futures) from time to time and is not affected by, nor does it affect, the timing of allocations to Clearing Accounts. Allocations in the relevant Clearing Accounts are complete by 7:00pm on a daily basis;
- (d) ASX Clear (Futures) will notify OTC Participants of any determinations with respect to Eligible Open Contracts; and
- (e) despite clause (d) above, ASX Clear (Futures) may determine that a particular Eligible Open Contract is ineligible for determining the amount of OTC Initial Margin required to be transferred, in which case the Clearing Participant will be notified of the exception by a report. In addition, each Eligible Open Contract deemed ineligible by ASX Clear (Futures) will be margined under the CME SPAN methodology for ASX Clear (Futures).

Eligible Open Contracts are as follows:

Eligible Futures Contract Code	Contract Name
IB	ASX 30 Day Interbank Cash Rate Futures
IR	ASX 90 Day Bank Accepted Bill Futures
YT	ASX 3 Year Treasury Bond Futures
XT	ASX 10 Year Treasury Bond Futures

## 5.6 OTC Intra day Margin and OTC Extra Margin

ASX Clear (Futures) is entitled to make additional margin calls for payment on the same day whenever ASX Clear (Futures) considers it necessary. Such calls may be made at any time during normal ASX operating times for cash settlement on a Business Day. Each OTC Intra day Margin call must be met by the OTC Participant within two hours of it being made.

If ASX Clear (Futures) determines that the aggregate value of the OTC Initial Margin actually delivered to ASX Clear (Futures) by an OTC Participant is insufficient to provide the cover required in order to fulfil their total margin requirement also taking into account all OTC Transactions which are expected to be registered during the course of the day, ASX Clear (Futures) may require the OTC Participant to provide additional OTC Initial Margin.

## 5.7 OTC Daily Closing Value

ASX Clear (Futures) will in general use its own determination of yield curves to calculate the net present value of each OTC Open Contract. This calculation will be conducted at least once on each Business Day in the determination of the OTC Daily Closing Value.

ASX Clear (Futures) will determine, at its sole discretion, appropriate instruments, maturity points and market prices required for the determination of zero coupon rates, discount factors and implied forward curves rates, as well as any other factors it deems necessary to produce a net present value for any OTC Open Contract or OTC Daily Closing Value.

The yield curves selected will use market prices and rates taken at a point in time determined by ASX at its discretion to reflect local market fair value to OTC Participants.

These calculations by ASX Clear (Futures) are conclusive and final.

## 5.8 OTC Daily Variation Margin

ASX Clear (Futures) will determine the OTC Daily Variation Margin in respect of OTC Open Contracts of an OTC Participant following the calculation of the OTC Daily Closing Values for those OTC Open Contracts. The OTC Daily Variation Margin is determined by reference to the change in the OTC Daily Closing Value of the OTC Open Contract since the previous Business Day.

All OTC Daily Variation Margin must be paid to ASX Clear (Futures) by 11:00am (Sydney time) on the Business Day following ASX Clear (Futures)' request for the OTC Daily Variation Margin. In addition, instructions for the payment of OTC Daily Variation Margin must be matched in Austraclear by 10:30am (Sydney time). All payments by ASX Clear (Futures) in connection with OTC Daily Variation Margin (including any Price Alignment Interest) are to be made to accounts located in Australia, unless otherwise agreed by ASX Clear (Futures).

Unless otherwise agreed by ASX Clear (Futures):

- (a) each OTC Participant and each CPM Client (where acting for itself as principal) which is a non-Australian resident for tax purposes represents and warrants that each payment received or to be received by it in connection with OTC Daily Variation Margin (including any Price Alignment Interest) will be effectively connected with its conduct of a trade or business in Australia carried on at or through a permanent establishment in Australia; and
- (b) each OTC Participant and each CPM Client (where acting for itself as principal) which is an Australian resident for tax purposes represents and warrants that it does not derive the payments in connection with OTC Daily Variation Margin (including any Price Alignment Interest) in part or in whole in carrying on business in a country outside Australia at or through a permanent establishment of itself in that country; and
- (c) each CPM Client (where acting as agent, or otherwise in a representative capacity on behalf of, or in respect of, another entity or entities) represents and warrants that, in each case:
  - (i) where the other entity is a non-Australian resident for tax purposes, that the other entity derives each payment in connection with OTC Daily Variation Margin (including any Price Alignment Interest) through its conduct of a trade or business in Australia carried on at or through a permanent establishment in Australia; and
  - (ii) where the other entity is an Australian resident for tax purposes, that the other entity does not derive the payments in connection with OTC Daily Variation Margin (including any Price Alignment Interest) in part or in whole in carrying on business in a country outside Australia at or through a permanent establishment of itself in that country,

and this applies despite the location of any branch of any OTC Participant or any OTC Participant Related Entity or CPM Client through which any particular OTC Transaction is entered into. References in this Paragraph 5.8 to the capacity in which a CPM Client is acting do not limit Futures Rule 113.5.

## 5.9 Price Alignment Interest

ASX Clear (Futures) will charge interest on the cumulative net OTC Daily Variation Margin in respect of all OTC Open Contracts (referred to as **Cumulative Variation Margin**) paid to an OTC Participant and pay interest on Cumulative Variation Margin

received from that OTC Participant. The amount of interest (PAI) is calculated and payable for each currency on each Business Day with respect to each OTC Open Contract in accordance with the following formula:

$$PAI = MtM_T \times Rate_T \times D/365$$

where:

"**MtM<sub>T</sub>**" means the amount of Cumulative Variation Margin received from, or payable by, the OTC Participant, as applicable, on the close of business of the day of calculation.

"**Rate<sub>T</sub>**" means such rate published on Reuters page RBA30 (or such other successor page(s) or rates as published by the Reserve Bank of Australia) and determined by ASX Clear (Futures) on the close of business of the day of calculation.

"**D**" means the actual number of days from (but excluding) the last day on which the PAI is calculated to (and including) the day of calculation.

## 6 DEFAULT

### 6.8 Allocation of Loss following default management process

Schedule 6 to this Handbook sets out a worked example of how Losses are allocated following the Default Management Process.

# Schedule 1 – OTC Eligibility Criteria

An OTC Transaction is eligible to be registered by ASX Clear (Futures) if it satisfies the eligibility criteria contained in this schedule. However, there are other conditions in the OTC Rules and this OTC Handbook for the registration of an OTC Transaction which also apply, including that an OTC Participant is, or is taken to be (in accordance with the OTC Rules), a party to the OTC Transaction, and that the required matched information in respect of that OTC Transaction has been submitted to and accepted by ASX Clear (Futures).

The eligibility criteria for an OTC Transaction are set out in this schedule separately with respect to each Approved Trade Source System through which the OTC Transaction may be submitted.

## 1 Introduction

This schedule defines the base clearing and trade eligibility rules and associated criteria that are to be applied within MarkitWire to OTC Transactions submitted by OTC Participants for OTC Clearing.

Terms defined in the OTC Rules, OTC Handbook, Futures Rules, MarkitWire to ASX Clearing Eligibility Specification and the 2006 ISDA Definitions as published by the International Swaps and Derivatives Association, Inc. as amended, varied or supplemented from time to time<sup>1</sup>, have the same meaning when used in this schedule.

The rules set out in this schedule constitute the “OTC Eligibility Criteria” applicable to an OTC Transaction which is submitted using MarkitWire as the Approved Trade Source System.

The rules outlined in this schedule do not include any additional rules or criteria that may be specified for or by individual MarkitWire participants, or subsequently added into MarkitWire’s clearing eligibility rules framework.

For technical reasons these trade eligibility rules and criteria may also be applied independently of the MarkitWire trade affirmation platform. ~~These are shown in Appendix B.~~

## 2 Global Eligibility Rules

The rules in this section 2 (Global Eligibility Rules) apply to all OTC Transactions regardless of OTC Transaction Type.

### 2.1 Eligible OTC Transactions

The OTC Transaction must be a Product Type which is currently eligible for OTC Clearing. Currently the following Product Types are eligible for OTC Clearing:

- IRS
- OIS
- Single Currency Basis Swap

<sup>1</sup> <http://www.isda.org/publications/isda2000def-annex-sup.aspx#2006defs>

## 2.2 Product Type and Status

An OTC Transaction with one of the following Contract States in MarkitWire cannot be cleared:

- Cancelled
- Clearing (by definition as it is already within the clearing process)
- Novated
- Allocated
- Prime Brokered

In addition the following rules regarding the Product Type will be applied:

- A Single Sided MarkitWire trade cannot be cleared (identified by the Manual Confirm checkbox on the Processing template page being ticked).
- An internal trade (defined as one where both parties have the same BIC) cannot be cleared.
- A trade with the Exclude from Clearing checkbox ticked cannot be cleared.
- A trade with a step-up/down Notional Amount, fixed rate or spread schedule cannot be cleared.
- An allocation block trade cannot be cleared (identified by the Allocated checkbox on the Allocation template page being ticked).

## 2.3 Modification Effective Date and Novation Date

The following fields are not required when OTC Transactions are entered directly into Markitwire by both OTC Participants (for the purpose of being cleared via the OTC Clearing service). As such, these fields can be disregarded when submitting OTC Transactions via the OTC Clearing service:

- Modification Effective Date
- Novation Date

## 3 IRS Specific Eligibility Rules

### 3.1 OTC Transaction Types

Vanilla Interest Rate Swap – fixed rate leg versus floating rate leg.

### 3.2 Structure

Single Currency

### 3.3 Currencies and Floating Rate Indices

The following Currencies and Floating Rate Indices are supported for OTC Clearing through ASX Clear (Futures):

Currency	Floating Rate Index
AUD	AUD-BBR-BBSW

### 3.4 Designated Maturity

The Designated Maturity of the OTC Transaction with a Floating Rate Index of AUD-BBR-BBSW must be 1, 3 or 6 months.

*[Explanatory Note: OTC Transactions with a Designated Maturity of 1 month may be accepted for clearing]*

### 3.5 Day Count Fraction

The Day Count Fraction of the OTC Transaction must be one of those specified in the following table:

Currency	Day Count Fraction	Markit Wire/FpML Code
AUD	Actual/365 (Fixed)	ACT/365.FIXED
	Actual/Actual.ISDA	ACT/ACT.ISDA
	Actual/Actual.ICMA	ACT/ACT.ICMA

### 3.6 Minimum Term

An OTC Transaction must have a Term of at least 89 calendar days.

### 3.7 Minimum Residual Term

An OTC Transaction must have a Minimum Residual Term (as calculated from, and including, the date the OTC Transaction is submitted for OTC Clearing to, and including the Termination Date) greater than or equal to 3 Sydney Business Days.

### 3.8 Maximum Residual Term

An OTC Transaction must have a Maximum Residual Term (as calculated from, and including, the date the OTC Transaction is submitted for OTC Clearing to, and including the Termination Date) as specified in the following table in respect of the Currency, Designated Maturity and Floating Rate Index.

Currency	Floating Rate Index	Designated Maturity	Maximum Residual Term
AUD	AUD-BBR-BBSW	6 months	Less than or equal to 11,342 calendar days
		3 months	Less than or equal to 1,122 calendar days
		<u>1 month</u>	<u>Less than or equal to 1,122 calendar days</u>

*[Explanatory Note: OTC Transactions with a Designated Maturity of 1 month may be accepted for clearing]*

### 3.9 Fixing Days Offset and Fixing Holiday Centres

An OTC Transaction must have only the following Fixing Days Offset and Fixing Holiday Centres for a given Floating Rate Index to be eligible for OTC Clearing:

Floating Rate Index	Fixing Days Offset	Fixing Holiday Centre
AUD-BBR-BBSW	0	AUSY

### 3.10 Minimum First Fixing Rate

An OTC Transaction with a specified First Fixing Rate for a Floating Rate Index of less than or equal to zero percent cannot be cleared. An OTC Transaction where the First Fixing Rate is not specified is eligible for OTC Clearing.

### 3.11 Different First Fixing Rule

Where a Different First Fixing Rule is specified in MarkitWire as being applicable to an OTC Transaction, the following conditions must be satisfied for the OTC Transaction to be eligible for OTC Clearing:

- The First Fixing Days Offset must be between 0 and –10 days inclusive, as adjusted in accordance with the applicable Business Day Convention.
- The First Fixing Holiday Centres must be recognised by ASX Clear (Futures) (see Appendix A) and must, at a minimum, include the Fixing Holiday Centres specified in Section 3.9.

### 3.12 Ineligible Floating Rate Indices

An OTC Transaction with a Floating Rate Index not listed as supported under Sections 3.3, 4.3 or 5.3 cannot be cleared.

### 3.13 Non-Mutual Optional Early Termination

An OTC Transaction with Optional Early Termination that is not a mutual put (identified by the field labelled 'Option' on the Break (2) IRS template page containing either the value 'Optional – Unilateral My Option' or 'Optional – Unilateral Other Party Option') cannot be cleared.

### 3.14 Mandatory Early Termination

An OTC Transaction with Mandatory Early Termination (identified by the field labelled 'Option' on the Break (2) IRS template page containing the value 'Mandatory') cannot be cleared.

### 3.15 Period End Date Adjustments

An OTC Transaction with an unadjusted Termination Date (identified by either of the "Adj Final (Fixed)" or "Adj Final (Float)" checkboxes on the Holidays IRS template page being un-ticked) cannot be cleared.

An OTC Transaction with no adjustment to the Period End Dates (identified by either of the "Adjust Fixed Period End Dates" or "Adjust Float Period End Dates" checkboxes on the Holidays IRS template page being un-ticked) cannot be cleared, unless such a setting is not facilitated by MarkitWire.

An OTC Transaction with an "Accrual Period Adjustment" type that is not set to the same value for both legs cannot be cleared.

### 3.16 Payment Lag

An OTC Transaction with Payment Lag of more than 2 Business Days cannot be cleared.

### 3.17 Principal Currency Holiday Centres

An OTC Transaction denominated in any supported Currency shown below and which does not specify the associated holiday centre(s) for purposes of determining

Business Days for payments and interest calculations cannot be cleared. In addition, any or all of the ASX Supported Holiday Centres listed in Appendix A may also be specified.

Currency	Holiday Centre	Markit Wire/FpML Code
AUD	Sydney	AUSY

### 3.18 Business Day Convention

An OTC Transaction that does not specify one of following Business Day Conventions cannot be cleared:

Business Day Convention	Markit Wire/FpML Code
Modified Following	MODF
Following	FOLL
Preceding	PREC

An OTC Transaction must apply a single Business Day Convention to each of: the Fixed Rate Payer Payment Dates, the Fixed Rate Payer Period End Dates, the Floating Rate Payer Payment Dates, the Floating Rate Payer Period End Dates, the Floating Rate Payer compounding dates, and the Termination Date.

### 3.19 Minimum Notional

An OTC Transaction with a Notional of less than one currency unit cannot be cleared.

### 3.20 Payment and Roll Holiday Centres

An OTC Transaction where the Payment Holiday Centres and Roll Holiday Centres are not the same cannot be cleared. An OTC Transaction where the Payment Holiday Centres do not include the relevant principal holiday centre associated with the Currency cannot be cleared (see Section 3.17 for Principal Currency Holiday Centres).

An OTC Transaction where the Payment Holiday Centres include one or more centres not supported by ASX cannot be cleared (see Appendix A for ASX Supported Holiday Centres).

### 3.21 Fees (Additional Payments)

An OTC Transaction with more than two Additional Payments<sup>2</sup> cannot be cleared.

An OTC Transaction with an Additional Payment in a currency different to the Currency cannot be cleared.

An OTC Transaction with an Additional Payment where the Additional Payment Holiday Calendar does not include the principal holiday centre associated with the Currency cannot be cleared.

An OTC Transaction with an Additional Payment where the Additional Payment Holiday Calendar includes one or more centres not supported by ASX Clear (Futures) (as described in Appendix A) cannot be cleared.

<sup>2</sup> An additional payment under the terms of this section means any payment not part of the normal coupon cycle.

An OTC Transaction which does not have the same holiday centres for Additional Payments, Payment Dates and roll dates cannot be cleared.

An OTC Transaction which does not have the Business Day Convention on Additional Payments, set to Modified Following (MODF) cannot be cleared.

An OTC Transaction with an Additional Payment where the Payment Date is prior to the Effective Date or after the Termination Date cannot be cleared.

### **3.22 Fixed and Float Start Date**

An OTC Transaction with different start dates for each of the Fixed Start Date and Float Start Date cannot be cleared.

### **3.23 Floating Leg Calculation**

An OTC Transaction with Reset In Arrears specified cannot be cleared.

### **3.24 Zero Coupon IRS**

To be eligible for OTC Clearing, an OTC Transaction with a fixed leg zero coupon structure (identified by the “Zero Coupon (Fixed)” checkbox on the IRS template page being ticked) must have a Maximum Residual Term of less than or equal to 1,122 calendar days.

### **3.25 Adjusted Fixed (or Float) Starts**

An OTC Transaction with different value for both the Adjust Fixed Start Date and Adjust Float Start Date cannot be cleared.

### **3.26 Compounding Method**

An OTC Transaction with a Compounding Method of ‘Spread Exclusive’ cannot be cleared.

### **3.27 Leg Compliance**

An OTC Transaction with a Floating Rate Index of AUD-BBR-BBSW which does not use one of the following Leg combinations cannot be cleared:

- Fixed/Float
- Float/Fixed

### **3.28 Payment Frequency**

An OTC Transaction which does not use one of the following Payment Frequencies cannot be cleared:

- [Monthly](#)
- Quarterly
- Semi-Annually
- Annually (Fixed Payment Frequency only)
- At maturity (Fixed Payment Frequency only)

*[\[Explanatory Note: OTC Transactions with a Designated Maturity of 1 month may be accepted for clearing\]](#)*

### 3.29 Stubs

Non-standard Calculation Periods (referred to as **Stub Periods**) may only occur at the start or end of the OTC Transaction. An OTC Transaction with Stub Periods at both the start and end of the transaction cannot be cleared. An OTC Transaction with a Stub Period at the start of the OTC Transaction greater than or equal to 2 Calculation Periods cannot be cleared.

An OTC Transaction with a Stub Period at the end of the OTC Transaction exceeding 1 Calculation Period cannot be cleared.

Application of Linear Interpolation for Stub Periods is only permitted between acceptable Stub Interpolation Floating Rate Index Tenors (currently 1m, 2m, 3m, 4m, 5m, 6m). OTC Transactions with Stub Period lengths outside of this tenor range, may elect to use "First Fixing Rate" or a Floating Rate Index without interpolation to be eligible for OTC Clearing. An OTC Transaction with Linear Interpolation for Stub Period lengths of less than 1 month (or greater than 6m), cannot be cleared.

### 3.30 Eligible Start Dates

An OTC Transaction with a Start Date exceeding the submission date by more than ~~5~~1850 Business Days cannot be cleared.

An OTC Transaction which has a Start Date prior to the Trade Date cannot be cleared.

*[Explanatory Note: forward starting swaps may be accepted for clearing]*

## 4 OIS Specific Eligibility Rules

### 4.1 OTC Transaction Types

Vanilla Interest Rate Swap – fixed rate leg versus floating rate leg.

### 4.2 Structure

Single Currency

### 4.3 Currencies and Floating Rate Indices

The following Currency and Floating Rate Indices are supported for OTC Clearing through ASX Clear (Futures):

Currency	Floating Rate Index
AUD	AUD-AONIA-OIS-COMPOUND

### 4.4 Designated Maturity

The Designated Maturity of the OTC Transaction with a Floating Rate Index of AUD-AONIA-OIS-COMPOUND, must be daily.

### 4.5 Day Count Fraction

The Day Count Fraction of the OTC Transaction must be one of those specified in the following table:

Currency	Day Count Fraction	Markit Wire/FpML Code
AUD	Actual/365 (Fixed)	ACT/365.FIXED
	Actual/Actual.ISDA	ACT/ACT.ISDA
	Actual/Actual.ICMA	ACT/ACT.ICMA

#### 4.6 Minimum Term

An OTC Transaction must have a Term of at least 3 Sydney Business Days.

#### 4.7 Minimum Residual Term

An OTC Transaction must have a Minimum Residual Term (as calculated from, and including, the date the OTC Transaction is submitted for OTC Clearing to, and including, the Termination Date) greater than or equal to 3 Sydney Business Days.

#### 4.8 Maximum Residual Term

An OTC Transaction must have a Maximum Residual Term (as calculated from, and including, the date the OTC Transaction is submitted for OTC Clearing to, and including the Termination Date) as specified in the following table in respect of the Currency and Floating Rate Index:

Currency	Floating Rate Index	Maximum Remaining Term
AUD	AUD-AONIA-OIS-COMPOUND	Less than or equal to 1,122 calendar days

#### 4.9 Fixing Days Offset and Fixing Holiday Centres

An OTC Transaction must have only the following Fixing Days Offset and Fixing Holiday Centres for a given Floating Rate Index to be eligible for OTC Clearing:

Floating Rate Index	Fixing Days Offset	Fixing Holiday Centre
AUD-AONIA-OIS-COMPOUND	0	AUSY

#### 4.10 Minimum First Fixing Rate

An OTC Transaction with a specified First Fixing Rate for a Floating Rate Index less than or equal to zero percent cannot be cleared. An OTC Transaction where the First Fixing Rate is not specified is eligible for OTC Clearing.

#### 4.11 Ineligible Floating Rate Indices

An OTC Transaction with a Floating Rate Index not listed as supported under Sections 3.3, 4.3 or 5.3 cannot be cleared.

#### 4.12 Non-Mutual Optional Early Termination

An OTC Transaction with Optional Early Termination that is not a mutual put (identified by the field labelled 'Option' on the Break (2) OIS template page containing either the value 'Optional – Unilateral My Option' or 'Optional – Unilateral Other Party Option') cannot be cleared.

#### 4.13 Mandatory Early Termination

An OTC Transaction with Mandatory Early Termination (identified by the field labelled 'Option' on the Break (2) OIS template page containing the value 'Mandatory') cannot be cleared.

#### 4.14 Period End Date Adjustments

An OTC Transaction with an unadjusted Termination Date (identified by either of the "Adj Final (Fixed)" or "Adj Final (Float)" checkboxes on the Holidays OIS template page being un-ticked) cannot be cleared.

An OTC Transaction with no adjustment to the Period End Dates (identified by either of the "Adjust Fixed Period End Dates" or "Adjust Float Period End Dates" checkboxes on the Holidays OIS template page being un-ticked) cannot be cleared, unless such a setting is not facilitated by MarkitWire.

An OTC Transaction with an "Accrual Period Adjustment" type that is not set to the same value for both legs cannot be cleared.

#### 4.15 Payment Lag

An OTC Transaction with Payment Lag of more than 2 Business Days cannot be cleared.

#### 4.16 Principal Currency Holiday Centres

An OTC Transaction denominated in any supported Currency shown below and which does not specify the associated holiday centre(s) for purposes of determining Business Days for payments and interest calculations cannot be cleared. In addition, any or all of the ASX Supported Holiday Centres listed in Appendix A may also be specified.

Currency	Holiday Centre	Markit Wire/FpML Code
AUD	Sydney	AUSY

#### 4.17 Business Day Convention

An OTC Transaction that does not specify one of the following Business Day Conventions cannot be cleared:

Business Day Convention	Markit Wire/FpML Code
Modified Following	MODF
Following	FOLL
Preceding	PREC

An OTC Transaction must apply a single Business Day Convention to each of: the Fixed Rate Payer Payment Dates, the Fixed Rate Payer Period End Dates, the Floating Rate Payer Payment Dates, the Floating Rate Payer Period End Dates, the Floating Rate Payer compounding dates, and the Termination Date.

#### 4.18 Minimum Notional

An OTC Transaction with a Notional of less than one currency unit cannot be cleared.

#### **4.19 Payment and Roll Holiday Centres**

An OTC Transaction where the Payment Holiday Centres and Roll Holiday Centres are not the same cannot be cleared.

An OTC Transaction where the Payment Holiday Centres do not include the principal holiday centre associated with the Currency cannot be cleared (see Section 4.16 for Principal Currency Holiday Centres).

An OTC Transaction where the Payment Holiday Centres include one or more centres not recognised by ASX cannot be cleared (see Appendix A for ASX Supported Holiday Centres).

#### **4.20 Fees (Additional Payments)**

An OTC Transaction with more than two Additional Payments<sup>3</sup> cannot be cleared.

An OTC Transaction with an Additional Payment in a currency different to the Currency cannot be cleared.

An OTC Transaction with an Additional Payment where the Additional Payment Holiday Calendar does not include the principal holiday centre associated with the Currency cannot be cleared.

An OTC Transaction with an Additional Payment where the Additional Payment Holiday Calendar includes one or more centres not supported by ASX Clear (Futures) (as described in Appendix A) cannot be cleared.

An OTC Transaction which does not have the Business Day Convention on additional payments, set to Modified Following (MODF) cannot be cleared.

An OTC Transaction which does not have the same holiday centres for Additional Payments, Payment Dates and roll dates cannot be cleared.

An OTC Transaction with an Additional Payment where the Payment Date is prior to the Effective Date or after the Termination Date cannot be cleared.

#### **4.21 Fixed and Float Start Date**

An OTC Transaction with different start dates for each of the Fixed Start Date and the Float Start Date cannot be cleared.

#### **4.22 Zero Coupon OIS**

To be eligible for OTC Clearing, an OTC Transaction with a fixed leg or floating leg zero coupon structure must have a Maximum Residual Term of less than or equal to 366 calendar days.

#### **4.23 Adjusted Fixed (or Float) Starts**

An OTC Transaction with a different value for both the Adjust Fixed Start Date and Adjust Float Start Date cannot be cleared.

#### **4.24 Leg Compliance**

An OTC Transaction with a Floating Rate Option of AUD-AONIA-OIS-COMPOUND which does not use one of the following Leg combinations cannot be cleared:

- Fixed/Float

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<sup>3</sup> An additional payment under the terms of this section means any payment not part of the normal coupon cycle.  
 ASX OTC Rulebook OTC Handbook Page 25  
 11729712\_3

- Float/Fixed

#### 4.25 Payment Frequency

An OTC Transaction which does not use one of the following Payment Frequencies cannot be cleared:

- Annually
- At maturity

#### 4.26 Stubs

Non-standard Calculation Periods (referred to as **Stub Periods**) may only occur at the start or end of the OTC Transaction. An OTC Transaction with Stub Periods at both the start and end of the transaction cannot be cleared.

An OTC Transaction with a Stub Period at the start of the OTC Transaction exceeding 366 Business Days cannot be cleared.

An OTC Transaction with a Stub Period at the end of the OTC Transaction exceeding 0 Business Days cannot be cleared.

#### 4.27 Eligible Start Dates

An OTC Transaction with a Start Date exceeding the submission date by more than ~~5~~740 Business Days cannot be cleared.

An OTC Transaction which has a Start Date prior to the Trade Date cannot be cleared.

*[Explanatory Note: forward starting swaps may be accepted for clearing]*

### 5 Basis-Swap Specific Eligibility Rules

#### 5.1 OTC Transaction Types

Vanilla Basis Swap – float rate leg versus floating rate leg within a single eligible currency.

#### 5.2 Structure

Single Currency

#### 5.3 Currencies and Floating Rate Indices

The following Currency and Floating Rate Indices are supported for OTC Clearing through ASX Clear (Futures):

Currency	Floating Rate Index
AUD	AUD-BBR-BBSW

#### 5.4 Designated Maturity

The Designated Maturity of the OTC Transaction with a Floating Rate Index of AUD-BBR-BBSW must be 1, 3 or 6 months.

*[Explanatory Note: OTC Transactions with a Designated Maturity of 1 month may be accepted for clearing]*

## 5.5 Day Count Fraction

The Day Count Fraction of the OTC Transaction must be one of those specified in the following table:

Currency	Day Count Fraction	Markit Wire/FpML Code
AUD	Actual/365 (Fixed)	ACT/365.FIXED
	Actual/Actual.ISDA	ACT/ACT.ISDA
	Actual/Actual.ICMA	ACT/ACT.ICMA

## 5.6 Minimum Term

An OTC Transaction must have a Term of at least 89 calendar days.

## 5.7 Minimum Residual Term

An OTC Transaction must have a Minimum Residual Term (as calculated from, and including, the date the OTC Transaction is submitted for OTC Clearing to, and including, the Termination Date) greater than or equal to 3 Sydney Business Days.

## 5.8 Maximum Residual Term

An OTC Transaction must have a Maximum Residual Term (as calculated from, and including, the date the OTC Transaction is submitted for OTC Clearing to, and including, the Termination Date) as specified in the following table in respect of the Currency, Designated Maturity and Floating Rate Index:

Currency	Floating Rate Index	Designated Maturity	Maximum Residual Term
AUD	AUD-BBR-BBSW	6 months	Less than or equal to 11,342 calendar days
		3 months	Less than or equal to 1,122 calendar days
		<a href="#">1 month</a>	<a href="#">Less than or equal to 1,122 calendar days</a>

[\[Explanatory Note: OTC Transactions with a Designated Maturity of 1 month may be accepted for clearing\]](#)

- Note: Where an OTC Transaction specifies a different Designated Maturity for each leg, the Maximum Residual Term will be set based on the lower of the two Designated Maturities.

## 5.9 Fixing Days Offset and Fixing Holiday Centres

An OTC Transaction must have only the following Fixing Days Offset and Fixing Holiday Centres for a given Floating Rate Index to be eligible for OTC Clearing:

Floating Rate Index	Fixing Days Offset	Fixing Holiday Centre
AUD-BBR-BBSW	0	AUSY

**5.10 Minimum First Fixing Rate**

An OTC Transaction with a First Fixing Rate for a Floating Rate Index less than or equal to zero percent cannot be cleared. Note that an OTC Transaction where the First Fixing Rate is not specified is eligible for OTC Clearing.

**5.11 Different First Fixing Rule**

Where a Different First Fixing Rule is specified in MarkitWire as being applicable to an OTC Transaction the following conditions must be satisfied for the OTC Transaction to be eligible for OTC Clearing:

- The First Fixing Days Offset must be between 0 and –10 days inclusive as adjusted in accordance with the applicable Business Day Convention.
- The First Fixing Holiday Centres must be recognised by ASX Clear (Futures) (see Appendix A) and must, at a minimum, include the Fixing Holiday Centre specified in Section 5.9 above.

**5.12 Ineligible Floating Rate Indices**

An OTC Transaction with a Floating Rate Index not listed in Sections 3.3, 4.3 or 5.3 as supported cannot be cleared.

**5.13 Non-Mutual Optional Early Termination**

An OTC Transaction with Optional Early Termination that is not a mutual put (identified by the field labelled 'Option' on the Break (2) IRS template page containing either the value 'Optional – Unilateral My Option' or 'Optional – Unilateral Other Party Option') cannot be cleared.

**5.14 Mandatory Early Termination**

An OTC Transaction with Mandatory Early Termination (identified by the field labelled 'Option' on the Break (2) IRS template page containing the value 'Mandatory') cannot be cleared.

**5.15 Period End Date Adjustments**

An OTC Transaction with an unadjusted Termination Date (identified by either (or both) the Adj Final (Fixed) or Adj Final (Float) checkboxes on the Holidays IRS template page being un-ticked) cannot be cleared.

An OTC Transaction with no adjustment to the Period End Dates (identified by either (or both) the Adjust Fixed Period End Dates or Adjust Float Period End Dates checkboxes on the Holidays IRS template page being un-ticked) cannot be cleared, unless such a setting is not facilitated by MarkitWire.

An OTC Transaction with an "Accrual Period Adjustment" type that is not set to the same value for both legs cannot be cleared.

**5.16 Payment Lag**

An OTC Transaction with Payment Lag of more than 2 Business Days cannot be cleared.

**5.17 Principal Currency Holiday Centres**

An OTC Transaction denominated in any supported Currency shown below and which does not specify the associated holiday centre(s) for purposes of determining

Business Days for payments and interest calculations cannot be cleared. In addition, any or all of the ASX Supported Holiday Centres listed in Appendix A may also be specified.

Currency	Holiday Centre	Markit Wire/FpML Code
AUD	Sydney	AUSY

## 5.18 Business Day Convention

An OTC Transaction that does not specify one of the following Business Day Conventions cannot be cleared:

Business Day Convention	Markit Wire/FpML Code
Modified Following	MODF
Following	FOLL
Preceding	PREC

An OTC Transaction must apply a single Business Day Convention to each of: the Floating Rate Payer Payment Dates, the Floating Rate Payer Period End Dates, the Floating Rate Payer compounding dates, and the Termination Date.

## 5.19 Minimum Notional

An OTC Transaction with a Notional less than one currency unit cannot be cleared.

## 5.20 Payment and Roll Holiday Centres

An OTC Transaction where the Payment Holiday Centres and Roll Holiday Centres are not the same cannot be cleared.

An OTC Transaction where the Payment Holiday Centres do not include the relevant principal holiday centre associated with the Currency cannot be cleared (see Section 5.17 for Principal Currency Holiday Centres).

An OTC Transaction where the Payment Holiday Centres include one or more centres not supported by ASX Clear (Futures) cannot be cleared (see Appendix A for ASX Supported Holiday Centres).

## 5.21 Fees (Additional Payments)

An OTC Transaction with more than two Additional Payments<sup>4</sup> cannot be cleared.

An OTC Transaction with an Additional Payment in a currency different to the Currency cannot be cleared.

An OTC Transaction with an Additional Payment where the Additional Payment Holiday Calendar does not include the principal holiday centre associated with the Currency cannot be cleared.

An OTC Transaction with an Additional Payment where the Additional Payment Holiday Calendar includes one or more holiday centres not supported by ASX Clear (Futures) (as described in Appendix A) cannot be cleared.

<sup>4</sup> An additional payment under the terms of this section means any payment not part of the normal coupon cycle.

An OTC Transaction which does not have the Business Day Convention on Additional Payments, set to Modified Following (MODF) cannot be cleared.

An OTC Transaction which does not have the same holiday centres on Additional Payments, Payment Dates and roll dates cannot be cleared.

An OTC Transaction with an Additional Payment where the Payment Date is prior to the Effective Date or after the Termination Date cannot be cleared.

## 5.22 Float Start Date

An OTC Transaction with different start dates for each of the Float Start Dates cannot be cleared.

## 5.23 Floating Leg Calculation

An OTC Transaction with Reset In Arrears specified for a leg cannot be cleared.

An OTC Transaction with a Float Reset Frequency not equal to the Designated Maturity cannot be cleared.

## 5.24 Adjusted Starts

An OTC Transaction with a different value for both Adjust Float Start Dates cannot be cleared.

## 5.25 Compounding Method

An OTC Transaction which has a Compounding Method of 'Spread Exclusive' cannot be cleared.

## 5.26 Leg Compliance

An OTC Transaction with a Floating Rate Index of AUD-BBR-BBSW and which does not use one of the following Leg combinations cannot be cleared:

- Float/Float

## 5.27 Payment Frequency

An OTC Transaction which does not use one of the following Payment Frequencies cannot be cleared:

- [Monthly](#)
- Quarterly
- Semi-Annually

[\[Explanatory Note: OTC Transactions with a Designated Maturity of 1 month may be accepted for clearing\]](#)

## 5.28 Stubs

Non-standard Calculation Periods (referred to as **Stub Periods**) may only occur at the start or end of the OTC Transaction. An OTC Transaction with Stub Periods at both the start and end of the transaction is subject to rejection by ASX Clear (Futures) in its discretion. An OTC Transaction with a Stub Period at the start of the OTC Transaction greater than or equal to 2 Calculation Periods cannot be cleared.

An OTC Transaction with a Stub Period at the end of the OTC Transaction exceeding 1 Calculation Period cannot be cleared.

Application of Linear Interpolation for Stub Periods is only permitted between acceptable Stub Interpolation Floating Rate Index Tenors (currently 1m, 2m, 3m, 4m, 5m, 6m). OTC Transactions with Stub Period lengths outside of this tenor range, may elect to use "First Fixing Rate" or a Floating Rate Index without interpolation to be eligible for OTC Clearing. An OTC Transaction with Linear Interpolation for Stub Period lengths of less than 1 month (or greater than 6m), cannot be cleared.

## 5.29 Eligible Start Dates

An OTC Transaction with a Start Date exceeding the submission date by more than ~~5~~1850 Business Days cannot be cleared.

An OTC Transaction which has a Start Date prior to the Trade Date cannot be cleared.

*[Explanatory Note: forward starting swaps may be accepted for clearing]*

## Appendix A: ASX Supported Holiday Centres

The following holiday centres are accepted by ASX. A MarkitWire trade that includes any other holiday centres than those listed below in the Payment, Roll, Additional Payment or Initial Fixing Holiday Centre fields cannot be cleared.

Holiday Centre	Markit Wire/FpML Code
Sydney	AUSY
Melbourne	AUME
New York	USNY
London	GBLO

## ~~Appendix B: Additional Trade Eligibility Criteria Applied Outside of MarkitWire~~

~~1. Additional trade validation criteria will be applied by ASX Clear (Futures) to any OTC Transaction with a declare related event scheduled to occur on:~~

- ~~a) the same date as the MarkitWire message is received by ASX Clear (Futures), and~~
- ~~b) the same date as any contractual cash flow is scheduled to occur.~~

~~A declare related event is any trade amendment, cancellation or novation based on a declare message received by ASX Clear (Futures) through MarkitWire. Any such event that is communicated to ASX Clear (Futures) on the same day as the event is scheduled to occur, and is scheduled to occur on the same day as any contractual cashflow arising from the OTC Transaction, cannot be cleared.~~

## Schedule 2 – OTC Terms

The terms of an OTC Open Contract includes these OTC Terms. They are separated into 3 parts, Interpretation, Economic Terms and Standard Terms. These OTC Terms are applicable to calculate the amounts payable to, or by, ASX Clear (Futures) under each OTC Open Contract.

### 1 Interpretation

#### 1.1 ISDA definitions

The 2006 ISDA Definitions (referred to as the **2006 ISDA Definitions**), as published by the International Swaps and Derivatives Association, Inc., are incorporated into these OTC Terms. (Copies of the 2006 ISDA Definitions are available at [www.isda.org/publications/pubguide.aspx](http://www.isda.org/publications/pubguide.aspx).)

Accordingly, terms defined in the 2006 ISDA Definitions have the same meaning when used in these OTC Terms and references to **Articles** means Articles in the ISDA 2006 Definitions.

References in the 2006 ISDA Definitions to a “Swap Transaction” are taken to be references to an “OTC Open Contract” for the purposes of these OTC Terms.

The 2006 ISDA Definitions apply to an OTC Open Contract despite the selection of any other definitions in the data transmitted in the submission of an OTC Transaction for registration.

#### 1.2 Amendments

If the 2006 ISDA Definitions are amended then the amendments are incorporated into these OTC Terms in respect of each OTC Open Contract which has a Trade Date after the time that the amendment is effective, unless ASX Clear (Futures) notifies OTC Participants to the contrary. ASX Clear (Futures) agrees to notify the OTC Participants of any such amendments after it becomes aware of them.

The accidental omission to give notice under this provision to, or the non-receipt of notice under this provision by, any OTC Participant does not invalidate the amendment with which the notice is concerned.

#### 1.3 Inconsistency

In the event of an inconsistency between the OTC Rules or the OTC Handbook and the 2006 ISDA Definitions, the OTC Rules or the OTC Handbook, as the case may be, prevails.

In the event of any inconsistency between the Economic Terms and the Standard Terms, the Standard Terms prevail.

### 2 Economic Terms

#### 2.1 Economic Terms

The economic terms of an OTC Open Contract (referred to as **Economic Terms**) are taken from the information submitted to ASX Clear (Futures) by the parties to the corresponding OTC Transaction.

## 2.2 Matched information

It is a condition to the registration that the particulars of a OTC Transaction presented to ASX Clear (Futures) must include matched information in respect of the Economic Terms, except that information in respect of 2.3(k)(vii) or (k)(viii) (not both).

## 2.3 OTC Transaction Type: Interest Rate Derivatives

The Economic Terms for interest rate derivatives comprise:

- (a) Notional Amount (see Article 4.7 for definition);
- (b) Currency (see Article 1.7 for definition);
- (c) Trade Date (see Article 3.7 for definition);
- (d) Effective Date (see Article 3.2 for definition);
- (e) Termination Date (see Article 3.3 for definition);
- (f) Initial Exchange (if applicable):
  - (i) Initial Exchange Amount payer;
  - (ii) Initial Exchange Amount (see Article 4.1 for definition);
  - (iii) Initial Exchange Date (see Article 3.4 for definition);
- (g) Interim Exchange or Periodic Exchange (if applicable):
  - (i) Interim Exchange Amount payer or Periodic Exchange Amount payer;
  - (ii) Interim Exchange Amount or Periodic Exchange Amount (see Article 4.2 for definition);
  - (iii) Interim Exchange Date or Periodic Exchange Date (see Article 3.5 for definition);
- (h) Final Exchange (if applicable):
  - (i) Final Exchange Amount payer;
  - (ii) Final Exchange Amount (see Article 4.3 for definition);
  - (iii) Final Exchange Date (see Article 3.6 for definition);
- (i) Business Days (see Article 1.4 for definition);
- (j) Business Day Convention (see Article 4.12 for definition);
- (k) Where Fixed Rate – Floating Rate Swap:
  - (i) Fixed Rate Payer (see Article 2.1 for definition);
  - (ii) Fixed Rate Payer Payment Dates;
  - (iii) Fixed Amount (see Article 4.4 for definition) [or Fixed Rate and Fixed Rate Day Count Fraction][or Fixed Rate Payer Schedule];
  - (iv) Floating Rate Payer (see Article 2.2 for definition);
  - (v) Floating Rate Payer Payment Dates;
  - (vi) Floating Rate Payer compounding dates (if applicable);
  - (vii) Floating Amount (see Article 4.5 for definition);
  - (viii) Floating Rate Option (see Article 6.2(h) for definition);
  - (ix) Designated Maturity (see Article 7.3(b) for definition);

- (x) Spread (see Article 6.2(e) for definition);
- (xi) Reset Dates (see Article 6.2(b) for definition);
- (xii) Floating Rate Day Count Fraction (see Article 6.2(f) for definition);
- (l) Where Floating Rate – Floating Rate Swap (“basis” swap):
  - (i) Floating Rate Payer 1 (see Article 2.2 for definition):
    - (A) Floating Rate Payer Payment Dates;
    - (B) Floating Rate Payer Compounding Dates (if applicable);
    - (C) Floating Rate Option (see Articles 6.2(i) and 6.2(h) for definition);
    - (D) Designated Maturity (see Article 7.3(b) for definition);
    - (E) Spread (see Article 6.2(e) for definition);
    - (F) Reset Dates (see Article 6.2(b) for definition);
    - (G) Floating Rate Day Count Fraction (see Article 6.2(f) for definition).
  - (ii) Floating Rate Payer 2 (see Article 2.2 for definition):
    - (A) Floating Rate Payer Payment Dates;
    - (B) Floating Rate Payer Compounding Dates (if applicable);
    - (C) Floating Rate Option (see Article 6.2(h) for definition);
    - (D) Designated Maturity (see Article 7.3(b) for definition);
    - (E) Spread (see Article 6.2(e) for definition);
    - (F) Reset Dates (see Article 6.2(b) for definition);
    - (G) Floating Rate Day Count Fraction (see Article 6.2(f) for definition).

## 2.4 Financial Centres

In addition to the Business Days for the financial centres specified in the Economic Terms, the Business Days for Sydney will apply to OTC Open Contracts.

## 3 Standard Terms

### 3.1 Standard Terms

The following terms are referred to as the Standard Terms of an OTC Open Contract.

### 3.2 Original documentation

Regardless of the documentation of an original OTC Transaction, these OTC Terms apply to all OTC Open Contracts.

### 3.3 Calculation Agent

The Calculation Agent (see Article 4.14 for definition) for each OTC Open Contract is ASX Clear (Futures).

### **3.4 Business Days**

In addition to the Business Days for the Financial Centres specified in the Economic Terms, the Business Days specified in the calendar published by ASX Clear (Futures), from time to time, will apply to an OTC Open Contract.

### **3.5 Negative Interest Rates**

The “Negative Interest Rate Method” as set out in Article 6.4(b) applies to an OTC Open Contract.

### **3.6 Stamp Tax**

Each OTC Participant will pay any Stamp Tax or duty levied or imposed upon it in respect of any OTC Open Contract to which it is a party and indemnifies ASX Clear (Futures) against any Stamp Tax or duty levied or imposed upon ASX Clear (Futures) in respect of any OTC Open Contract registered by ASX Clear (Futures) and to which that OTC Participant is a party.

### **3.7 Payments under an OTC Open Contract**

Each OTC Participant agrees to make the payments due to be made by it under each of its OTC Open Contracts in accordance with the OTC Rules and the OTC Handbook. Payments under, and in respect of, an OTC Open Contract are calculated by ASX Clear (Futures) and are made by, or to, the OTC Participant in accordance with the provisions of the OTC Handbook and the OTC Rules.

### **3.8 OTC Rules and OTC Handbook**

An OTC Open Contract is subject to the OTC Rules and the OTC Handbook, which forms part of its terms. In the event of any inconsistency between these OTC Open Contract Terms and the OTC Rules and the OTC Handbook, the OTC Rules and OTC Handbook (as applicable) prevails.

### **3.9 Governing law**

Each OTC Open Contract is governed by the law in force in New South Wales and the parties submit to the non-exclusive jurisdiction of the courts of New South Wales.

# Schedule 3 – Default Management Group Procedures

## 1 Introduction

The purpose of these default management group procedures (referred to as the **DMG Procedures**) is to set out the authority, organisation, manner of appointment and other matters relating to Default Management Groups (each referred to as a **DMG**) established by ASX Clear (Futures) pursuant to Paragraph 1.1 of Schedule 3 (Establishment of DMGs) of the OTC Rules (referred to as the **Default Management Process**).

## 2 Definitions

Terms used and not otherwise defined in these DMG Procedures have the meanings which they have in the OTC Rules (including the Default Management Process).

Paragraphs of these DMG Procedures are referred to as DMG Paragraphs.

## 3 DMG Establishment

### 3.1 DMG Composition Table

ASX Clear (Futures) will maintain a table which lists OTC Transaction Types and the number of persons required to participate in a DMG relating to such OTC Transaction Type (referred to as a **DMG Composition Table**).

The maximum number of DMG Members who may be appointed in respect of each DMG is 10, or such other number as ASX Clear (Futures) may determine in its sole discretion.

The DMG Composition Table will be updated or adjusted by ASX Clear (Futures) annually for each upcoming DMG term.

### 3.2 Establishment of DMGs

ASX Clear (Futures) will establish a DMG with respect to each OTC Transaction Type specified in the DMG Composition Table.

However, ASX Clear (Futures) may, in its discretion, decide not to establish a DMG with respect to an OTC Transaction Type which does not have a substantial size.

## 4 Selection of Participating DMG Member Institutions

### 4.1 Participating DMG Member Institution

ASX Clear (Futures) will select the OTC Participants entitled to nominate a DMG Member (each referred to as a **Participating DMG Member Institution**) in accordance with this DMG Paragraph 4 (Selection of Participating DMG Member Institutions).

## 4.2 Applicable List

With respect to a DMG and the relevant DMG term, ASX Clear (Futures) will compile a list of eligible Participating DMG Member Institutions according to and ordered by the time when such eligible Participating DMG Member Institutions became OTC Participants (each referred to as an **Applicable List**). The applicable number of OTC Participants of each Applicable List will automatically qualify as Participating DMG Member Institutions for the DMG in the order of appearance on the Applicable List, unless ASX Clear (Futures) determines, in its reasonable opinion, that there is a good reason for excluding a qualifying OTC Participant.

## 4.3 Substitution

Each Participating DMG Member Institution may arrange for another OTC Participant to perform its default management functions. Any such entity performing must be acceptable to ASX Clear (Futures) (in its sole discretion) and comply with the conditions imposed by ASX Clear (Futures) including signing the Agreement for the Participation in a Default Management Group in the form provided by ASX Clear (Futures) from time to time. Upon doing so the relevant OTC Participant will cease to be a Participating DMG Member Institution and, on acceptance by ASX Clear (Futures), the substitute is taken to be a Participating DMG Member Institution.

## 4.4 ASX Clear (Futures) to inform of selection

ASX Clear (Futures) will inform each Participating DMG Member Institution of its selection as a Participating DMG Member Institution for a DMG for the initial DMG term as soon as practicable following the commencement of OTC Clearing.

For each selection of Participating DMG Member Institutions in respect of each subsequent DMG term for a DMG, ASX Clear (Futures) will inform each Participating DMG Member Institution of its selection as a Participating DMG Member Institution at least three months prior to the commencement of the relevant DMG term.

# 5 Designated DMG Members

## 5.1 Designated DMG Members

By no later than two months following receipt of ASX Clear (Futures)' notice pursuant to DMG Paragraph 4.4 (ASX Clear (Futures) to inform of selection), each Participating DMG Member Institution will nominate:

- (a) an individual (who may be an employee of the Participating DMG Member or of any Related Body Corporate of such Participating DMG Member) as a potential DMG Member (referred to as the **Designated DMG Member**); and
- (b) another individual (who may be an employee of the Participating DMG Member or of any Related Body Corporate of such Participating DMG Member) as a potential deputy (referred to as the **Designated DMG Deputy**),

for the DMG term of a DMG by notifying ASX Clear (Futures) in writing or by fax of the identities and contact information (including personal telephone number and email address) of the nominated individuals (referred to as the **Designation Notice**).

If ASX Clear (Futures) does not receive the Designation Notice by the time set out above then the relevant Participating DMG Member Institution will cease to be a

Participating DMG Member Institution. Another OTC Participant will be selected by ASX Clear (Futures) in accordance with DMG Paragraph 4 (Selection of Participating DMG Member Institutions) to nominate a Designated DMG Member and a Designated DMG Deputy for the DMG term of a DMG. ASX Clear (Futures) will notify the relevant Participating DMG Member Institution of its failure to receive the Designation Notice.

## 5.2 DMG Member Undertaking

ASX Clear (Futures) will prepare and provide to each Designated DMG Member and Designated DMG Deputy a form of letter under which a Designated DMG Member or Designated DMG Deputy acknowledge and agree to its respective rights and responsibilities as described in these DMG Procedures.

The Participating DMG Member Institution will ensure that both the Designated DMG Member and the Designated DMG Deputy return the letter completed and duly executed, by the earlier of:

- (a) five Business Days after becoming a Designated DMG Member or a Designated DMG Deputy; and
- (b) the last Business Day prior to the commencement of the relevant DMG term (referred to as the **Designation Cut-Off Time**).

Failure by a Designated DMG Member or a Designated DMG Deputy to return a properly completed and executed letter by the Designated Cut-Off Time will result in the relevant Designated DMG Member or a Designated DMG Deputy ceasing to be a Designated DMG Member or a Designated DMG Deputy. In this circumstance, ASX Clear (Futures) will request the Participating DMG Member Institution to nominate a new DMG Member or DMG Deputy in accordance with this DMG Paragraph 5 (Designated DMG Members).

## 5.3 DMG Eligibility Criteria

Each Designated DMG Member and Designated DMG Deputy must satisfy the following eligibility criteria (referred to as the **DMG Eligibility Criteria**) evidenced by adequate information provided by the relevant Participating DMG Member Institution to ASX Clear (Futures):

- (a) the designated individual must be an employee of the Participating DMG Member Institution or a Related Body Corporate and must have agreed to participate in a DMG;
- (b) the designated individual must be qualified with respect to the relevant OTC Transaction Type and must have appropriate expertise and experience in relation to the relevant DMG Matters;
- (c) the designated individual is not already a DMG Member or DMG Deputy in a DMG or a similar committee of another central counterparty, clearinghouse or exchange;
- (d) the designated individual will not be subject to conflicts of interest following its acceptance as a DMG Member or DMG Deputy and will not be unable to act as DMG Member or DMG Deputy for any other reason; and
- (e) the designated individual must be available for prompt participation in person at the premises of ASX Clear (Futures) in Sydney or by electronic communication from a location approved by ASX Clear (Futures) in a DMG Meeting for which the individual has received a meeting request under DMG Paragraph 9.1 with at least two hours' notice (in respect of a DMG Meeting called in accordance with DMG paragraph 9.3 (Default management meetings)) or at least two weeks' notice (in respect of a DMG

Meeting called in accordance with DMG paragraph 9.2 (Regular meetings)); and

- (f) the designated individual must not have been sanctioned for misconduct in connection with his or her employment, whether by the Participating DMG Institution, any other employer (current or previous) or any legal or regulatory body.

## **6 Acceptance by ASX Clear (Futures)**

### **6.1 Assessment**

Upon receipt of a Designation Notice, ASX Clear (Futures) will assess the candidacy of the Designated DMG Member and the Designated DMG Deputy on the basis of the information given by the Participating DMG Member Institution to evidence compliance with the DMG Eligibility Criteria.

The Participating DMG Member Institution will provide any further information or evidence of compliance with the DMG Eligibility Criteria reasonably requested by ASX Clear (Futures).

### **6.2 Acceptance of DMG Member and DMG Deputy by ASX Clear (Futures)**

Upon acceptance of a Designated DMG Member and Designated DMG Deputy by ASX Clear (Futures), such Designated DMG Member will be a **DMG Member** for the DMG term of the DMG and such Designated DMG Deputy will be a **DMG Deputy** for such DMG Member for the DMG term of the relevant DMG. Where these DMG Procedures refer to a DMG Member, such reference will also or only refer to the DMG Deputy if and to the extent the context so requires.

### **6.3 Rejection**

ASX Clear (Futures) will only reject a Designated DMG Member or a Designated DMG Deputy if the Designated DMG Member or the Designated DMG Deputy does not satisfy the DMG Eligibility Criteria. ASX Clear (Futures) will notify the relevant Participating DMG Member Institution of such rejection and provide written reasons.

### **6.4 Second Nomination**

Upon a rejection of a Designated DMG Member or a Designated DMG Deputy by ASX Clear (Futures), the relevant Participating DMG Member Institution may nominate a second individual as Designated DMG Member or Designated DMG Deputy, as the case may be, in accordance with DMG Paragraph 5 (Designated DMG Members).

If ASX Clear (Futures) also rejects such second individual nominated as Designated DMG Member or Designated DMG Deputy, as the case may be, ASX Clear (Futures) will notify the relevant Participating DMG Member Institution and the relevant Participating DMG Member Institution will cease to be a Participating DMG Member Institution for that DMG for that DMG term.

ASX Clear (Futures) will then select another OTC Participant in accordance with DMG Paragraph 4 (Selection of Participating DMG Member Institutions) to nominate a Designated DMG Member and a Designated DMG Deputy for the DMG term of the DMG.

## 6.5 List of DMG Members

ASX Clear (Futures) will maintain a list of all DMG Members and DMG Deputies of each DMG, including the relevant contact details (address, phone number, fax number, email address).

ASX Clear (Futures) is not obliged to make available such list to OTC Participants or any other person.

## 7 Term of appointment

### 7.1 DMG term

The membership of a DMG Member or DMG Deputy in a DMG will end on the last day of the 12th month after it commenced (referred to as the **DMG term**). However, ASX Clear (Futures) may designate such longer initial DMG term of a DMG or otherwise extend the initial DMG term of a DMG following the commencement of OTC Clearing if it, and the relevant DMG (by majority vote), agree.

ASX Clear (Futures) is entitled to extend the DMG term of a DMG if the DMG Matters for which a DMG Meeting has been convened are not resolved before the end of such DMG term or if it, and the relevant DMG (by majority vote), otherwise agree to extend.

An individual appointed as a DMG Member or DMG Deputy may serve on the same DMG for consecutive DMG terms if duly appointed.

### 7.2 Information undertaking

Each Participating DMG Member Institution will inform ASX Clear (Futures) without undue delay if:

- (a) the relevant DMG Member or DMG Deputy no longer complies with the DMG Eligibility Criteria; or
- (b) it merges with any other Participating DMG Member Institution(s) and if therefore more than one DMG Member or DMG Deputy nominated by the Participating DMG Member Institutions (which are related bodies corporate) is a DMG Member or DMG Deputy in the same DMG.

### 7.3 Resignation

A DMG Member or DMG Deputy may at any time resign from its appointment by giving not less than 30 calendar days prior written notice of its resignation to the DMG Secretary provided that in any event such resignation will only become effective upon the acceptance by ASX Clear (Futures) of a successor DMG Member or DMG Deputy.

### 7.4 Automatic Removal

A DMG Member or DMG Deputy will be automatically removed from a DMG on which it serves without any further notice upon:

- (a) the declaration or occurrence of a Default in relation to the Participating DMG Member Institution (or the OTC Participant (which it is substituting for) in the case of DMG Paragraph 4.3 (Substitution)) which has nominated such DMG Member or DMG Deputy; or
- (b) such Participating DMG Member Institution ceasing to be an authorised OTC Participant; or

(c) ceasing to be an employee of the Participating DMG Member Institution.

In the case of (c), the Participating DMG Member Institution is to nominate a successor who meets the DMG Eligibility Criteria.

## 7.5 Removal in the case of a merger

If two or more Participating DMG Member Institutions are subject to a merger and become related bodies corporate, ASX Clear (Futures) will upon consultation with these Participating DMG Member Institution(s), remove all appointed DMG Members and DMG Deputies of such original Participating DMG Member Institutions except for one DMG Member and one DMG Deputy.

## 7.6 Removal by ASX Clear (Futures)

ASX Clear (Futures) has the right to remove a DMG Member or DMG Deputy from the DMG on which it serves by giving not less than five calendar days prior written notice to the DMG Member or DMG Deputy and the Participating DMG Member Institution if:

- (a) the DMG Member or DMG Deputy fails to participate in at least two DMG Meetings without good reason; or
- (b) the DMG Member or DMG Deputy fails to comply with its duties under the DMG Procedures and such failure (if capable of remedy) has not been remedied after receipt of written notice thereof from the DMG Secretary giving a reasonable remedy period; or
- (c) the DMG Member or DMG Deputy no longer complies with the DMG Eligibility Criteria.

In the case of (c), the Participating DMG Member Institution is to nominate a successor who meets the DMG Eligibility Criteria.

## 7.7 Removal by Participating DMG Member Institution

Participating DMG Member Institutions may remove the DMG Member or DMG Deputy nominated by it from the DMG on which it serves provided that such removal will only become effective upon the appointment of a successor DMG Member or DMG Deputy (as applicable).

## 7.8 Removal

Any DMG Member or DMG Deputy that resigns or is replaced or removed from a DMG under these DMG Procedures will no longer be a DMG Member or DMG Deputy, as the case may be, and ASX Clear (Futures) will, in each case, accept a successor DMG Member or DMG Deputy for the remaining DMG term of the DMG who complies with the DMG Eligibility Criteria.

# 8 Office holders

## 8.1 DMG Chairman and DMG Deputy Chairman

Once all DMG Members for a DMG and a DMG term have been appointed, these DMG Members will, upon notification by ASX Clear (Futures), appoint (by Majority vote) a DMG Member to each of the following:

- (a) the chairman of the DMG (referred to as the **DMG Chairman**); and

- (b) the deputy chairman who will perform the functions of the DMG Chairman at any DMG Meeting at which the DMG Chairman is not present (referred to as the **DMG Deputy Chairman**).

The appointment as DMG Chairman and DMG Deputy Chairman will be valid for the DMG term of the DMG.

## 8.2 DMG Secretary

ASX Clear (Futures) will serve as the secretary of each DMG (referred to as the **DMG Secretary**) and will perform the administrative duties set out in these DMG Procedures.

## 9 Convening DMG Meetings

### 9.1 DMG Secretary to convene

The DMG Secretary may at any time convene a meeting of a DMG (referred to as a **DMG Meeting**) by delivering a meeting request notice to all DMG Members (copied to each DMG Deputy) of the DMG.

Such meeting requests are to be provided to each DMG Member by telephone or email at the telephone number or email address given to ASX Clear (Futures) and addressed to such DMG Member personally.

Meeting requests will be delivered to DMG Members as soon as practicable before the DMG Meeting giving details about the date and time of the DMG Meeting, provided that any meeting request for a DMG Meeting to be held pursuant to:

- (a) DMG Paragraph 9.2 (Regular meetings) will be delivered no less than 2 weeks prior to the DMG Meeting; or
- (b) DMG Paragraph 9.3 (Default management meetings) will be delivered no less than 2 hours prior to the DMG Meeting.

### 9.2 Regular meetings

DMG Meetings will be convened at regular intervals in order to:

- (a) keep under review the Default Management Process, together with any guidance issued in respect of it;
- (b) keep under review the terms of reference of the DMG to ensure they remain appropriate;
- (c) consider appropriate supplements or amendments to the Default Management Process or guidance to improve the procedures in place; and
- (d) consider any other business relevant to the DMG which any member of the DMG or ASX Clear (Futures) from time to time considers appropriate.

### 9.3 Default management meetings

In addition to the regular meetings described in DMG Paragraph 9.2 (Regular meetings), DMG Meetings will be convened in accordance with the Default Management Process.

## 9.4 DMG Meeting Agenda

The DMG Secretary may consult with the DMG Chairman or the DMG Deputy Chairman prior to convening a DMG Meeting.

The DMG Secretary will prepare a meeting agenda which will be distributed to the DMG Members once the DMG Meeting has been opened by the DMG Chairman (referred to as the **DMG Meeting Agenda**).

## 10 Conduct of DMG Meetings

### 10.1 Location of DMG Meetings

DMG Meetings will take place at the premises of ASX Clear (Futures) in Sydney.

### 10.2 Participating DMG Members

DMG Members must participate in each DMG Meeting in person at the premises of ASX Clear (Futures) in Sydney or by electronic communication from a location approved by ASX Clear (Futures).

The relevant DMG Deputy must attend the DMG Meeting if the DMG Member does not attend. A DMG Deputy is not entitled to attend a DMG Meeting if the DMG Member for its Participating Member Institution is attending.

The DMG Members (and any DMG Deputies) attending a DMG Meeting are each referred to as a **Participating DMG Member**.

### 10.3 Representatives of Defaulted OTC Participants

For the purpose of DMG Meetings convened to deal with a specific Defaulted OTC Participant, ASX Clear (Futures) may, after consultation with the DMG, invite the Defaulted OTC Participant to nominate one or more representatives to join the DMG to assist it in carrying out its functions in the Default Management Process for that Defaulted OTC Participant, and also request representatives from any other OTC Participants.

If it receives such request, the OTC Participant must make available its nominated representative, or an alternate with appropriate skills, experience and expertise.

Each such representative:

- (a) must, before attending the meeting, sign an acknowledgment and undertaking letter provided by the DMG Secretary; and
- (b) will form part of the relevant DMG but will not have a right to vote at the DMG Meeting.

### 10.4 Other Attendees

ASX Clear (Futures) may invite any outside counsel, other outside experts, Futures Participants or clients to designate one of its employees to attend one or more DMG Meetings of a DMG to the extent and as long as such attendance is considered appropriate by ASX Clear (Futures) (referred to as an **Other Attendee**).

Each Other Attendee:

- (a) must sign an acknowledgement and undertaking letter provided by the DMG Secretary prior to its attendance in a DMG Meeting; and

- (b) will form part of the DMG but will not have the right to vote in a DMG Meeting.

## 10.5 Employees of ASX Clear (Futures)

Employees of ASX Clear (Futures) may attend DMG Meetings at any time but will not have a right to vote and will not be taken to form part of the DMG. However, employees of ASX Clear (Futures) will have oversight of the DMG and any DMG Meeting and will facilitate any communication between the DMG, any DMG Member and ASX Clear (Futures) with respect to any DMG Matter or any other statement or matter as provided for in the DMG Procedures.

## 10.6 No Communication

Participating DMG Members are not permitted to engage in any communication with the relevant Participating DMG Member Institution or any other third party with respect to DMG Matters or any other information obtained during DMG Meetings.

No Participating DMG Members may engage in any communication with another member of a DMG outside of the DMG Meeting with respect to DMG Matters.

Participating DMG Members of a DMG are not permitted to bring any means of electronic communication to the premises of the DMG Meeting.

## 10.7 Leaving

Participating DMG Members may not leave the DMG Meeting until the DMG Meeting has been officially closed by the DMG Secretary.

## 10.8 Voting Procedure and Majority

Subject to DMG Paragraph 8.1 (DMG Chairman and DMG Deputy Chairman), all decisions to be made by the DMG will be made at a DMG Meeting by Majority vote of the Participating DMG Members. No quorum of a particular number of Participating DMG Members is required for the convening of a DMG Meeting, the consideration of any item of business of a DMG Meeting or any decision or other determination of the DMG.

For this purpose, **Majority** will mean at least 50% of the Participating DMG Members.

Each Participating DMG Member will have one single vote. In the event that any vote is tied, the DMG Chairman will have the casting vote.

## 10.9 DMG Minutes

Minutes will be taken of all DMG Meetings and signed by the DMG Secretary (referred to as **DMG Minutes**). The DMG Minutes will include the place and date of the DMG Meeting, the Participating DMG Members, the DMG Matters on the DMG Meeting Agenda, the substance of the deliberations and the votes taken by the DMG.

The DMG Secretary will record in the DMG Minutes the identity of each Participating DMG Member with respect to any matter raised by such Participating DMG Member in the DMG Meeting.

## **11 Statements of DMG**

### **11.1 DMG Statement**

The DMG may appoint by Majority vote one or more Participating DMG Members to prepare, on behalf of the DMG, any proposal, response, statement or other document setting out the views of the DMG with respect to any DMG Matter (referred to as a **DMG Statement**).

The DMG Chairman may refer the DMG Statement to a DMG Meeting for approval by Majority vote or may, if the DMG Chairman is satisfied that the DMG Statement represents the views of the Majority of Participating DMG Members after circulating such DMG Statement to the Participating DMG Members, deliver such DMG Statement to ASX Clear (Futures), following which such DMG Statement will be incorporated into the DMG Minutes and will be deemed to set out the view of the DMG.

### **11.2 DMG Statements Non-binding**

ASX Clear (Futures) will respect a statement or advice from the DMG. However ASX Clear (Futures) is not required to follow such statement or advice. In exercising its rights and obligations in consulting with a DMG, ASX Clear (Futures) will use all reasonable commercial endeavours to agree a common position with the DMG, provided that nothing in the OTC Rules, the OTC Handbook (including the DMG Procedures) or the Default Management Process will prevent ASX Clear (Futures) acting in a way which it reasonably determines necessary to manage its risk or otherwise meet its continuing regulatory obligations including those applicable to it as a CS facility licensee.

If ASX Clear (Futures) does not follow the recommendations or advice of the DMG, ASX Clear (Futures) will provide a notice in writing to the DMG Chairman setting out its reasons for not following such recommendations or advice. ASX Clear (Futures) will not be required to provide such reasons or information relating to reasons where that information is commercially sensitive.

## **12 Conduct of DMG Members**

### **12.1 Status**

Each Participating DMG Member always remains an employee of the respective Participating DMG Member Institution and does not become an employee of ASX Clear (Futures).

## 12.2 Directions by Participating DMG Member Institutions

The Participating DMG Member Institution must instruct, and if its DMG Member is employed by any Related Body Corporate of such Participating DMG Member Institution must use reasonable endeavours to ensure that such Related Body Corporate instructs, its DMG Member when acting in such capacity, to comply with the lawful instructions of ASX Clear (Futures) under these Rules and otherwise to act in the best interest of a successful default management process of ASX Clear (Futures).

## 12.3 Information Undertakings

Each DMG Member will inform ASX Clear (Futures) without undue delay and, if possible, in advance if it is unable to attend any DMG Meeting due to holidays, sickness or any other absence or unavailability.

Each DMG Member and each DMG Deputy will promptly inform ASX Clear (Futures) of any change of its contact details provided to ASX Clear (Futures).

## 12.4 Confidentiality

Except as expressly contemplated in these DMG Procedures or as may be required by applicable law or court order or by an authority having appropriate jurisdiction, each DMG Member and each DMG Deputy will:

- (a) maintain absolute confidentiality regarding any and all information relating to ASX Clear (Futures) and any and all business and trade secrets of ASX Clear (Futures) both towards the Participating DMG Member Institution and towards third parties;
- (b) maintain absolute confidentiality with respect to all aspects of any DMG Matters of any current or past DMG Meetings in which such DMG Member was involved, including any discussions, deliberations, proceedings, or results of any votes, or any determinations or acts made under these DMG Procedures (referred to as the **Confidential Information**) both towards the Participating DMG Member Institution and towards third parties; and
- (c) not use any Confidential Information pursuant to item (a) or (b) for its own benefit or the benefit of the Participating DMG Member Institution or the benefit of any third parties (referred to as the **Confidentiality Obligation**).

Confidential Information pursuant to item (a) or (b) shall exclude information which:

- (d) is in or becomes part of the public domain otherwise than through breach of the Rules or Procedures or an obligation of confidentiality owed to ASX Clear (Futures);
- (e) the relevant DMG Member or DMG Deputy can prove by contemporaneous written documentation was already known to it at the time of disclosure (unless such knowledge arose from disclosure of information in breach of an obligation owed to or by a third party); or
- (f) the relevant DMG Member or DMG Deputy acquired from a third party entitled to disclose it.

## 12.5 Compliance with Default Management Group Dealing Code of Conduct and Default Management Group Terms of Reference

Each Participating DMG Member Institution, DMG Member and DMG Deputy will be bound by the provisions of the Default Management Group Dealing Code of Conduct and the Default Management Group Terms of Reference, each as separately made available by ASX Clear (Futures) from time to time.

## **12.6 Execution of DM Hedging Transactions**

If ASX Clear (Futures) has requested a Participating DMG Member of a DMG to assist ASX Clear (Futures) in the execution of DM Hedging Transactions in accordance with Schedule 3 of the OTC Rules (Default Management Process), the execution of such DM Hedging Transactions will be governed by the terms of the Default Management Group Dealing Code of Conduct.

## **13 Compensation**

### **13.1 No Remuneration**

DMG Members and DMG Deputies are not entitled to receive remuneration from ASX Clear (Futures).

### **13.2 Costs and Expenses**

Participating DMG Members may request from ASX Clear (Futures) reimbursement of all reasonable costs and expenses incurred in connection with their participation in a DMG Meeting, unless the relevant Participating DMG Member Institution is obliged to reimburse such costs and expenses.

## **14 Governing Law; Place of Jurisdiction**

The rights and obligations arising out of, and in connection with, these DMG Procedures will be governed by the law in force in New South Wales.

The exclusive place of jurisdiction for all disputes arising out of, or in connection with, these DMG Procedures is New South Wales.

## **15 Amendments**

ASX Clear (Futures) reserves the right to amend the DMG Procedures from time to time.

# Schedule 4 – Default Management Auction Procedures

## 1 DM Auction Procedures

Each DM Auction is governed by these default management auction procedures (referred to as the **General DM Auction Procedures**), as supplemented by specific auction terms (referred to as the **Specific DM Auction Terms**), which will be substantially in the form of the annex to this Schedule. The General DM Auction Procedures and the Specific DM Auction Terms are together referred to as the **DM Auction Procedures**.

In the case of any inconsistency between the Specific DM Auction Terms for a particular Auction and the General DM Auction Procedures, the Specific DM Auction Terms will prevail.

A summary of the applicable timings and steps to be taken in respect of a DM Auction (referred to as the **DM Auction Process Timeline**) is set out in the Addendum to these General DM Auction Procedures. The DM Auction Process Timeline is provided by way of guidance only and does not form part of the DM Auction Procedures or override the DM Auction Procedures for any particular DM Auction.

## 2 Definitions

Terms used and not otherwise defined in the DM Auction Procedures will have the meaning given to them in the OTC Rules (including the Default Management Process).

Paragraphs of these DM Auction Procedures are referred to as DM Auction Paragraphs.

## 3 DM Auctions and DM Auctions Price

DM Auctions will enable the bidders participating in accordance with the DM Auction Procedures to enter into the DM Auction Transactions comprised in the relevant Auction Units with ASX Clear (Futures) at an auction price for the relevant Auction Unit determined in accordance with these DM Auction Procedures (the price for an Auction Unit in each case is referred to as an **Auction Price**).

ASX Clear (Futures) will, after consultation with the relevant DMG(s), specify in the Specific Terms for each DM Auction the relevant Auction Units, and the total number of Auction Units, to be auctioned in the relevant DM Auction, provided that, if the Auction Format of a DM Auction in respect of an Auction Pool is "Highest Bidder Wins Auction Format" there will only be one Auction Unit for such DM Auction.

## 4 Participation in DM Auctions

### 4.1 Participating Bidders

Each Mandatory OTC Participant which is obliged to participate, and each other DM Auction Invitee which has notified ASX Clear (Futures) that it has decided to

participate, in the relevant DM Auction in accordance with the Default Management Process may:

- (a) either itself; or
- (b) arrange for another OTC Participant in its place (whether as principal or agent, provided that such arrangement is acceptable to ASX Clear (Futures)),

make a submission of a Bid (as defined below) with regard to a specific Auction Unit, such bidder referred to as a **Participating Bidder**.

## 4.2 Disclosure

A DM Auction Invitee may not disclose the Specific DM Auction Terms or any other information with respect to any DM Auction received in its capacity as a DM Auction Invitee, other than in accordance with the Rules, the Default Management Group Dealing Code of Conduct, the Default Management Group Terms of Reference or the Procedures.

## 5 Pre-Auction Procedures

### 5.1 DM Auction Invitees

For each DM Auction ASX Clear (Futures) will provide all Mandatory OTC Participants and such other OTC Participants which ASX Clear (Futures) has selected (if any, and at its sole discretion) to invite (each referred to as a **DM Auction Invitee**) with the Specific DM Auction Terms and with any further relevant information relating to the DM Auction.

The distribution of the Specific DM Auction Terms constitutes an invitation of ASX Clear (Futures) to the DM Auction Invitees to submit a Bid to enter into each of the DM Auction Transactions comprised in the relevant Auction Unit with ASX Clear (Futures) at the Auction Price.

### 5.2 Content of Specific DM Auction Terms

The Specific DM Auction Terms will contain:

- (a) the Auction Unit(s) (including information regarding the DM Auction Transactions comprised in them and any minimum number of Auction Units which each individual Mandatory OTC Participant is required to bid for);
- (b) the auction currency;
- (c) the scheduled auction date (referred to as the Auction Date) and the commencement time, as of which the respective Bids can be submitted (referred to as the Commencement Time);
- (d) the scheduled expiration time by which the respective Bids have to be submitted pursuant to DM Auction Paragraph 6 (Bidding Procedures) by the relevant Participating Bidder (referred to as the Expiration Time);
- (e) the Auction Format (as defined in DM Auction Paragraph 8 (Auction Format) below); and
- (f) the date and time of acceptance of the winning Bids (referred to as the Acceptance Date and Acceptance Time) and the date and time of settlement of the auction (referred to as the Settlement Date and the Settlement Time).

## 5.3 Changes

ASX Clear (Futures) is entitled at any time prior to the Expiration Time to change the Auction Date, Commencement Time, Expiration Time, the Auction Format, the Auction Pool the subject of the DM Auction or the bidding procedures pursuant to DM Auction Paragraph 6 (Bidding Procedures), or to cancel a DM Auction, in each case by notice, provided that ASX Clear (Futures) will reasonably extend the Expiration Time to allow for the exercise of the revocation right pursuant to DM Auction Paragraph 5.4 (Revocation of Bids following amendment) below. ASX Clear (Futures) will inform all Participating Bidders about any such changes.

## 5.4 Revocation of Bids following amendment

If ASX Clear (Futures) amends the Specific DM Auction Terms or any provisions of the General DM Auction Procedures prior to the Expiration Time of a DM Auction and such amendment is, in the reasonable opinion of ASX Clear (Futures), materially prejudicial to any Participating Bidder that has already submitted its Bid(s) before such amendment was announced and became effective, then such Participating Bidder may revoke its Bid(s) in accordance with this DM Auction Paragraph 5.4 (Revocation of Bids following amendment), provided that a revocation of the respective Bid(s) will only become effective if received by ASX Clear (Futures) prior to the Expiration Time (as amended). Any extension, cancellation, or re-opening of a DM Auction will be deemed not to be materially prejudicial so that a Participating Bidder may not revoke its Bid in case of any such change, however such a Bid may be revised prior to the Expiration Time of the DM Auction.

## 6 Bidding Procedures

### 6.1 Principles

With respect to each DM Auction the following principles will apply:

- (a) each Mandatory OTC Participant is obliged to provide ASX Clear (Futures) with its mandatory bid(s); and
- (b) each Participating Bidder is permitted to provide ASX Clear (Futures) with a Bid for any further Auction Unit for which it is not obliged to bid.

### 6.2 Bids and Bidding Periods

Participating Bidders must submit their offered price for an Auction Unit, or if there is a minimum number of Auction Units for which a Mandatory OTC Participant (if that Participating Bidder is, or is acting on behalf of, that Mandatory OTC Participant) is required to bid, the number of Auction Units no less than such minimum number, in accordance with the Auction Format and in compliance with the DM Auction Procedures (each such submission referred to as a **Bid**) in accordance with DM Auction Paragraph 8 (Auction Format) from, and including, the relevant Commencement Time to, and including, the relevant Expiration Time (referred to as the **Bidding Period**). Each Bid must be a price per Auction Unit expressed in the Auction Currency as specified in the Specific DM Auction Terms for such DM Auction.

### 6.3 Bids Irrevocable

A Bid constitutes an offer to enter into the DM Auction Transactions comprised in the relevant Auction Unit(s) (as referred to in the Bid in accordance with the Auction

Format and in compliance with the DM Auction Procedures) with ASX Clear (Futures) at the Auction Price. Subject to DM Auction Paragraph 5.4 (Revocation of Bids following amendment), the most recent Bid received by ASX Clear (Futures) from a Participating Bidder in respect of the Auction Unit(s) comprised in a DM Auction will be irrevocable.

#### **6.4 Bids may be Positive or Negative**

Bids may be positive or negative. If the Bid is positive, then if it is successful, the Participating Bidder will be required to pay the Auction Price to ASX Clear (Futures). If the Bid is negative, then if it is successful, ASX Clear (Futures) will be required to pay the Auction Price to the Participating Bidder.

#### **6.5 Bids not open**

All Bids submitted are to be made by a confidential means of communication and are to remain anonymous until the Expiration Time.

#### **6.6 Oral Bids**

Unless otherwise specified in the Specific DM Auction Terms, Participating Bidders may submit a Bid orally by telephone to ASX Clear (Futures), provided that such oral submission is subsequently evidenced in writing by the Participating Bidder to ASX Clear (Futures). However, the failure to provide any written evidence to ASX Clear (Futures) does not alter the effectiveness of the relevant Bid.

Any Bid submitted orally will be deemed to have been submitted at the time of the oral communication of such Bid.

The record maintained by ASX Clear (Futures) of any such Bid is the authoritative record and is conclusive at all times.

#### **6.7 Instructions to ASX Clear (Futures)**

ASX Clear (Futures) may reject any communication from a Participating Bidder purporting to submit, revise or revoke any Bid in accordance with the Auction Format and in compliance with the DM Auction Procedures if ASX Clear (Futures) determines, in its discretion, that such communication is not clear and unequivocal.

### **7 Determination of Winning Bid and Auction Price**

#### **7.1 Winning Bids**

After the Expiration Time, ASX Clear (Futures) will determine the winning Bid for each Auction Unit in accordance with the Auction Format specified in the Specific DM Auction Terms and will inform the winning Participating Bidder on the Acceptance Date and at the Acceptance Time about the acceptance of the respective Bid.

If two or more Participating Bidders enter the same Bid for the same Auction Unit, the winning Bid will be the Bid that was received first by ASX Clear (Futures).

However, regardless of any provisions contained in the Specific DM Auction Terms or these General DM Auction Procedures, if the Auction Format for a DM Auction specifies that the highest Bid (or Bids) submitted is to be the winning Bid (or Bids) for an Auction Unit, if the highest Bid (or Bids) are not acceptable to ASX Clear (Futures) in its sole discretion, having regard to compliance with its obligations as a

CS facility licensee, ASX Clear (Futures) may instead select the next highest Bid (or Bids) (or if the next highest Bid is also not acceptable to ASX Clear (Futures) each subsequent lower Bid until a Bid (or Bids) are deemed acceptable) as the winning Bid (or Bids) in any DM Auction.

## 7.2 DM Auction Transactions

Upon acceptance of the winning Bid for an Auction Unit by ASX Clear (Futures), the DM Auction Transactions of such Auction Unit will be established at the Settlement Time on the Settlement Date against payment of the Auction Price for such Auction Unit in accordance with the standard practices of ASX Clear (Futures). The relevant DM Auction Transactions will be established between ASX Clear (Futures) and either:

- (a) the Participating Bidder; or
- (b) in respect of DM Auction Transactions equivalent to Terminated Open Contracts, in circumstances where the Participating Bidder is not a Futures Participant, the Futures Participant nominated by the Participating Bidder in accordance with OTC Rule 2.3 (Conditions to become an OTC Participant).

## 7.3 Notification

ASX Clear (Futures) will inform all Participating Bidders as soon as practically feasible whether their Bid(s) qualified as winning Bid(s) with respect to each Auction Unit.

## 7.4 Failed Auction

If ASX Clear (Futures) determines that a DM Auction or any part of it has failed for any reason, ASX Clear (Futures) may reallocate Auction Units and hold a further DM Auction, or take such other action as ASX Clear (Futures) determines in its discretion is appropriate.

## 7.5 Non-disclosure

ASX Clear (Futures) will keep confidential the details of all Bids submitted to it until the Expiration Time, provided that following the Expiration Time, ASX Clear (Futures) may disclose to the DMG the level of each Bid received.

In any event, ASX Clear (Futures) will not disclose:

- (a) the identity of the Participating Bidder that submitted the winning Bid for an Auction Unit to any party;
  - (b) the Auction Price for any Auction Unit of an Auction Pool, to any party other than the Participating Bidder who submitted the winning Bid; or
  - (c) Bids of Participating Bidders to other Participating Bidders,
- unless it is required to do so by law, regulation or regulators.

# 8 Auction Format

## 8.1 General

The Specific DM Auction Terms will specify the format of the relevant DM Auction with regard to the content of a Bid, the specific procedures of the bidding and the determination of a winning Bid (referred to as the **Auction Format**).

ASX Clear (Futures) may apply any Auction Format to a DM Auction in its sole discretion, however when conducting a DM Auction in accordance with these DM Auction Procedures, ASX Clear (Futures) will, unless stated otherwise in the Specific DM Auction Terms, apply the Auction Format of a "Highest Bidder Wins Auction Format" as described in DM Auction Paragraph 8.3 (Highest Bidder Wins Auction Format).

## 8.2 Reserve Price

The Specific DM Auction Terms may specify that ASX Clear (Futures) can set a reserve price in connection with a DM Auction. If a reserve price specified for one or more Auction Units is higher than the otherwise winning Bid for such Auction Unit(s), then despite any other provision of these DM Auction Procedures there is taken to be no winning Bid for such Auction Unit(s).

## 8.3 Highest Bidder Wins Auction Format

If the Specific DM Auction Terms specify "Highest Bidder Wins Auction Format" as the applicable Auction Format or if no Auction Format is specified, the following applies:

- (a) all Bids will be made in accordance with the DM Auction Procedures;
- (b) there will be one Auction Unit only comprised in the Auction Pool;
- (c) each Mandatory OTC Participant is required to bid for the Auction Unit comprised in the Auction Pool;
- (d) subject to DM Auction Paragraph 8.2 (Reserve Price) and acceptance of the winning Bid by ASX Clear (Futures), the highest valid Bid will be the winning Bid with respect to each Auction Unit and such highest Bid will be the Auction Price for the respective Auction Unit; and
- (e) subject to DM Auction Paragraph 8.2 (Reserve Price), ASX Clear (Futures) will accept the winning Bid pursuant to DM Auction Paragraph 7.1 (Winning Bids) above with respect to each Auction Unit irrespective of whether Bids were submitted for all Auction Units of the respective DM Auction unless ASX Clear (Futures) chooses not to accept any Bids (in which case it may choose to initiate another DM Auction).

## 8.4 Multi-Unit Auction Format

If the Specific DM Auction Terms specify "Multi-Unit Auction Format" as the applicable Auction Format, the following applies:

- (a) ASX Clear (Futures) will specify in the Specific DM Auction Terms or by email to each Mandatory OTC Participant a minimum number of Auction Units for which the Mandatory OTC Participant will submit a Bid. Such minimum number of Auction Units will be determined by ASX Clear (Futures) in accordance with the following formula:
  - (i) the Proportionate Initial Margin Value for the Mandatory OTC Participant for the relevant Auction Pool  
*divided by*  
 the sum of the Proportionate Initial Margin Values for all Mandatory OTC Participants for the relevant Auction Pool  
*multiplied by*
  - (ii) the Weighted Number of Auction Units for the relevant Auction Pool.  
 For this purpose:

**Proportionate Initial Margin Value** is the value of Initial Margin allocated to a Mandatory OTC Participant for the relevant Auction Pool as determined by ASX Clear (Futures) on the basis of the proportion of OTC Open Contracts and other Open Contracts held by such Mandatory OTC Participant as compared with the OTC Open Contracts and other Open Contracts held by each other Mandatory OTC Participant taking into consideration the Terminated Open Contracts and DM Hedging Transactions comprised in such Auction Pool.

**Weighted Number of Auction Units** is:

- A. the value of Initial Margin of the Defaulted OTC Participant for the relevant Auction Pool, as determined by ASX Clear (Futures) as if for this purpose it were a Mandatory OTC Participant  
*divided by*
- B. the Auction Unit size in AUD as determined by ASX Clear (Futures) in its sole discretion  
*multiplied by*
- C. a multiplier determined by ASX Clear (Futures) in its sole discretion, provided that the multiplier must be greater than one.

The resulting minimum number of Auction Units for such Mandatory OTC Participant will be rounded up to the nearest whole Auction Unit.

- (b) all Bids will be made in accordance with the DM Auction Procedures;
- (c) subject to DM Paragraph 8.2 (Reserve Price) and acceptance of the winning Bid by ASX Clear (Futures), the highest valid Bid will be the winning Bid with respect to each Auction Unit and such highest Bid will be the Auction Price for the respective Auction Unit; and
- (d) subject to DM Paragraph 8.2 (Reserve Price), ASX Clear (Futures) will accept the winning Bid pursuant to DM Auction Paragraph 7.1 (Winning Bids) above with respect to each Auction Unit irrespective of whether Bids were submitted for all Auction Units of the respective DM Auction unless ASX Clear (Futures) chooses not to accept any Bids (in which case it may choose to initiate another DM Auction).

## 9 Settlement of Auction Price

At the Settlement Time on the Settlement Date, the payment of the Auction Price becomes due and payable and will be paid, together with any applicable OTC Daily Variation Margin or Variation Margin associated with the successful Bid.

## 10 Irregularities

All questions as to the validity, form and eligibility (including the time of receipt) of any Bid or revision of it, will be determined by ASX Clear (Futures), which determination will be final and binding.

ASX Clear (Futures) reserves the absolute right to reject at any time any and all Bids that do not comply with these DM Auction Procedures.

ASX Clear (Futures) reserves the absolute right to waive any requirement under the DM Auction Procedures.

ASX Clear (Futures) will be under no duty to give notice to Participating Bidders of any irregularities in Bids.

## **11 Representations, Warranties and Undertakings**

### **11.1 Agreements**

By submitting a Bid in accordance with the DM Auction Procedures, each Participating Bidder agrees at the time of the submission of its Bid, with ASX Clear (Futures) that:

- (a) it accepts the DM Auction Procedures;
- (b) it accepts that ASX Clear (Futures) is under no obligation to accept a Bid which is not made in accordance with the DM Auction Procedures;
- (c) it accepts the rights of ASX Clear (Futures) set out in DM Auction Paragraph 10 (Irregularities); and
- (d) it will indemnify on an after tax basis ASX Clear (Futures) against all and any losses, costs, claims, liabilities, expenses, charges, actions or demands which ASX Clear (Futures) may incur or which may be made against ASX Clear (Futures) as a result of any breach of any of the DM Auction Procedures of, or any of the acknowledgements, representations, warranties and undertakings given pursuant to, the DM Auction Procedures (including any Bid thereunder) by the Participating Bidder, up to a maximum capped amount for that Participating Bidder in respect of all DM Auctions which may occur as a result of the applicable OTC Participant's Default, of fifty million dollars (\$50,000,000).

### **11.2 Acknowledgments**

By submitting a Bid in accordance with the DM Auction Procedures, each Participating Bidder acknowledges at the time of the submission of its Bid, to ASX Clear (Futures) that:

- (a) it understands that ASX Clear (Futures) may, at its own discretion, extend, re-open, amend or waive any condition of, or cancel the DM Auction at any time in accordance with DM Auction Paragraph 5.3 (Changes), and that in the event of a cancellation of the DM Auction, the Bids will be cancelled;
- (b) it understands that acceptance by ASX Clear (Futures) of a submitted Bid as a winning Bid will constitute a binding contract regarding the entering into the DM Auction Transactions comprised in the relevant Auction Units;
- (c) that ASX Clear (Futures) will rely upon the truth and accuracy of the acknowledgments, agreements, representations, warranties and undertakings contained in this DM Auction Paragraph 11 (Representations, Warranties and Undertakings); and
- (d) that an OTC Daily Variation Margin requirement or Variation Margin requirement with respect to the respective DM Auction Transactions comprised in the relevant Auction Units may become due at the relevant Settlement Time.

### 11.3 Representations

By submitting a Bid in accordance with the DM Auction Procedures, each Participating Bidder represents and warrants at the time of the submission of its Bid, to ASX Clear (Futures) that:

- (a) it will keep confidential and will not disclose directly or indirectly the Specific DM Auction Terms or any other information regarding the relevant DM Auction, including any information with respect to the DM Auction Transactions or the Auction Units, that it will use any such information solely for the purpose of evaluating the relevant Auction Units and that it will, unless it has provided the winning Bid which has been accepted by ASX Clear (Futures) or is required to retain such information pursuant to law or internal compliance procedures, immediately delete and destroy such information after the respective Expiration Time and will promptly certify to ASX Clear (Futures) in writing that such deletion has been completed;
- (b) it has not made and will not make available any information about Bids to, or discuss any Bids with, any other Participating Bidder;
- (c) it has neither taken, nor omitted to take, any action in breach of the DM Auction Procedures;
- (d) it does not engage in any trading activity with the purpose of affecting the value of any DM Auction Transaction or Auction Units;
- (e) no order has been made or applied for or resolution passed for the suspension of payments or dissolution, termination of existence, liquidation, winding-up, bankruptcy, insolvency, judicial management or curatorship;
- (f) no moratorium in respect of all or any debts or a composition or an arrangement with creditors or any similar proceeding or arrangement by which its assets are submitted to the control of its creditors is ordered, declared or applied for;
- (g) no liquidator, trustee, administrator, receiver, statutory manager or similar officer has been appointed in respect of it or in respect of all or a substantial part of its assets;
- (h) it is able to pay its debts as and when they fall due, will not become unable to pay its debts as a consequence of entering into the DM Auction Transactions; and
- (i) no event has occurred or circumstance arisen with respect to it, which might (whether or not with the giving of notice or the passage of time or the fulfilment of any other requirement) constitute a Default.

The representation in (a) above is also made by each DM Auction Invitee which is not a Participating Bidder.

The representations and warranties pursuant to this DM Auction Paragraph 11.3 (Representations) will be repeated by each Participating Bidder on the Settlement Date.

### 11.4 Duty to Inform

If a Participating Bidder is unable to give the agreements, acknowledgements, representations and warranties set out in this DM Auction Paragraph 11 (Representations, Warranties and Undertakings), such Participating Bidder will notify ASX Clear (Futures) without undue delay informing ASX Clear (Futures) about the relevant circumstances.

## **12 Governing law; Place of jurisdiction**

The rights and obligations arising out of, and in connection with, the DM Auction Procedures will be governed by the law in force in New South Wales.

The exclusive place of jurisdiction for all disputes arising out of, or in connection with, these DM Auction Procedures is New South Wales.

## **13 Amendment of DM Auction Procedures**

ASX Clear (Futures) reserves the right to amend the DM Auction Procedures.

## Addendum – Default Management Auction Process Timeline

### 1 Guidance

This Addendum summarises the applicable timings and steps to be taken in respect of a DM Auction.

The DM Auction Process Timeline is provided by way of guidance only and does not form part of the DM Auction Procedures or override the DM Auction Procedures for any particular DM Auction.

### 2 DM Auction Process Timeline

Step:	Applicable time:	Action:
1	Prior to the Commencement Time	ASX Clear (Futures) to provide all DM Auction Invitees with the Specific Auction Terms in respect of the DM Auction.  If the Auction Format is "Multi-Unit Auction Format" ASX Clear (Futures) will specify the minimum number of Auction Units which must be bid for by each Mandatory OTC Participant.
2	At the Commencement Time on the Auction Date	The DM Auction commences.
3	During the Bidding Period	Participating Bidders to submit Bids for the relevant number of Auction Units.
4	Prior to the Expiration Time	ASX Clear (Futures) may change the Auction Date, Commencement Time, Expiration Time, Auction Format or bidding procedures.  If such changes are materially prejudicial to a Participating Bidder that has already submitted a Bid, the Participating Bidder may revoke its Bid, if such revocation is received prior to the Expiration Time (as amended).
5	Expiration Time	Submission of Bids closes.
6	Acceptance Time on the Acceptance Date	ASX Clear (Futures) will inform the winning Participating Bidder of the acceptance of its winning Bid for the relevant Auction Units.
7	Settlement Time on the Settlement Date	DM Auction Transactions of each Auction Unit are established as of the Settlement Time on the Settlement Date against payment of the Auction Price for such Auction Unit.  Any applicable OTC Daily Variation Margin or any Variation Margin associated with the successful Bid becomes due and payable.

**ANNEX – Form of Specific Terms for DM Auctions*****[Letterhead of ASX Clear (Futures)]***

To The DM Auction Invitees

[Date]

**SPECIFIC TERMS FOR DM AUCTIONS**

You have been invited by ASX Clear (Futures) to participate in a DM Auction (as further described by the details below).

These Specific DM Auction Terms must be read in conjunction with the General DM Auction Procedures as set out in Schedule 4 (Default Management Auction Procedures) of the ASX OTC Handbook by ASX Clear (Futures) Pty Ltd and constitute in conjunction with the General DM Auction Procedures the DM Auction Procedures for this DM Auction. In case of any differences between the General DM Auction Procedures and these DM Auction Specific Terms, these Specific DM Auction Terms will prevail.

Each DM Auction Invitee will keep confidential and will not disclose directly or indirectly the Specific DM Auction Terms or any other information regarding the relevant DM Auction, including any information with respect to the DM Auction Transactions or the Auction Units. It will use any such information solely for the purpose of evaluating the Auction Units and it will, unless it has provided a winning Bid that has been accepted by ASX Clear (Futures), immediately delete and destroy such information after the respective Expiration Time and will promptly certify to ASX Clear (Futures) in writing that such deletion has been completed.

**General Information:**

Auction Pool(s) : [       ]  
 DM Auction Transactions: See attached spreadsheet  
 Auction Units: See attached spreadsheet  
 [Minimum number of Auction units which must be Bid for: [       ]]  
 Weighted OTC Commitment Amount: [       ]

Auction Currency:

**Auction Timetable:**

Auction Date: [       ]  
 Commencement Time: [       ]  
 Expiration Time: [       ]  
 Acceptance Date and [       ]  
 Acceptance Time: [       ]  
 Announcement Time: [       ]  
 Settlement Date and Settlement Time: [       ]

**Bidding and Auction Procedure Details:**

Auction Format: [ ] [Highest Bidder Wins Auction Format]  
[Multi-Unit Auction Format]

[ ] Other: ***[describe]***

***[other]*** [ ]

***[other]*** [ ]

## Schedule 5 – Juniorisation Worked Examples

The following examples assume there are nine OTC Participants each having an OTC Commitment as follows:

	OTC Participant	Fixed OTC Commitment (AUD)	Variable OTC Commitment (AUD)	Total OTC Commitment (AUD)
1	Apple Bank	5,000,000	20,000,000	25,000,000
2	Orange Bank	5,000,000	8,000,000	13,000,000
3	Pear Bank	5,000,000	7,000,000	12,000,000
4	Peach Bank	5,000,000	5,000,000	10,000,000
5	Banana Bank	5,000,000	4,000,000	9,000,000
6	Tomato Bank	5,000,000	3,000,000	8,000,000
7	Olive Bank	5,000,000	2,000,000	7,000,000
8	Carrot Bank	5,000,000	1,000,000	6,000,000
9	Default Bank	5,000,000	5,000,000	10,000,000
	<b>Total</b>	<b>45,000,000</b>	<b>55,000,000</b>	<b>100,000,000</b>

**Table 1: OTC Commitments of each OTC Participant**

### **1 Highest Bidder Wins Auction Format DM Auction, all OTC Participants are Mandatory OTC Participants**

Assume that the Defaulting OTC Participant, named Default Bank, had an OTC Initial Margin (**IM**) requirement of AUD 200,000,000 in respect of its OTC Open Positions at the time of Default.

Assume that ASX Clear (Futures) determines that one DM Auction is to take place using the Highest Bidder Wins Auction Format, and all Non-Defaulting OTC Participants are Mandatory OTC Participants. The OTC Commitments of all Non-Defaulting OTC Participants will consequently be applied in accordance with the procedures set out in Paragraph 5 (Juniorisation) of Schedule 3 of the OTC Rules in that one DM Auction.

The DM Auction takes place and the submitted Bids were ranked from highest to lowest in accordance with Paragraph 5.3 (Priority Groups and Commitment Application Amounts) of Schedule 3 of the OTC Rules. The resulting order in relation to each Mandatory OTC Participant was as follows:

Rank	Mandatory OTC Participant	OTC Commitment (AUD)	Cumulative Total OTC Commitment available for application (AUD)
1	Apple Bank	25,000,000	90,000,000
2	Tomato Bank	8,000,000	65,000,000
3	Orange Bank	13,000,000	57,000,000
4	Peach Bank	10,000,000	44,000,000
5	Pear Bank	12,000,000	34,000,000
6	Carrot Bank	6,000,000	22,000,000
7	Banana Bank	9,000,000	16,000,000
8	Olive Bank	7,000,000	7,000,000
	<b>Total</b>	<b>90,000,000</b>	

**Table 2: Ranking of Bids and resulting Juniorisation waterfall**

The OTC Commitment of the Defaulting OTC Participant is not included in Table 2 as it ranks junior to the OTC Commitment of all Non-Defaulting OTC Participants in the order of application as set out in Futures Rule 7.1.

In applying the OTC Commitment of each Non-Defaulting OTC Participant in accordance with Futures Rule 7.1(d), Losses are applied to the OTC Commitments in sequential order from the OTC Participant who submitted the lowest Bid (Olive Bank in Table 2) up to the winning bidder (Apple Bank in Table 2).

If the Losses have been fully met by applying the OTC Commitment of some but not all of the Non-Defaulting OTC Participants then the loss application process will cease at such point. For example, if the Losses were fully met after application of AUD 50,000,000 of the Total OTC Commitment of the Non-Defaulting OTC Participants, then each of Olive, Banana, Carrot, Pear and Peach Banks would have lost all their respective OTC Commitments and Orange Bank would lose AUD 6,000,000 of its AUD 13,000,000 OTC Commitment. None of the OTC Commitment of Apple Bank and Tomato Bank would be applied as they submitted higher Bids.

## **2 Multiple Highest Bidder Wins Auction Format DM Auctions, all OTC Participants are Mandatory OTC Participants**

Assume that ASX Clear (Futures) determines that four Auction Pools should be created in respect of a Defaulted OTC Participant in accordance with Paragraph 4.3 (Auction Pools and Auction Pool Weighting) of Schedule 3 of the OTC Rules.

Assume that three of those Auction Pools (Auction Pools A, B and C) are expected to achieve a reasonable level of bidding interest from the Non-Defaulting OTC Participants and have each been given an Auction Pool Risk Weighting of 1 (the

baseline allocation multiplier). However, one Auction Pool (Auction Pool D) is determined to be a little less attractive and therefore ASX Clear (Futures), in consultation with the DMG has determined that it needs to stimulate demand in that DM Auction by allocating it an Auction Pool Risk Weighting of 3.

The following Auction Pool IM Values are allocated by ASX Clear (Futures) to each Auction Pool and the resulting Auction Pool Weightings using the applicable Auction Pool Risk Weightings are applied:

	<b>Auction Pool A</b>	<b>Auction Pool B</b>	<b>Auction Pool C</b>	<b>Auction Pool D</b>	<b>Total</b>
Auction Pool IM Value	AUD 100,000,000	AUD 50,000,000	AUD 30,000,000	AUD 20,000,000	AUD 200,000,000
Auction Pool Risk Weighting	1	1	1	3	
Risk Weighted IM Value	AUD 100,000,000	AUD 50,000,000	AUD 30,000,000	AUD 60,000,000	AUD 240,000,000
<b>Auction Pool Weighting</b>	<b>0.4167</b>	<b>0.2083</b>	<b>0.1250</b>	<b>0.2500</b>	<b>1</b>

**Table 3: DM Auction Pool Weightings**

As can be seen in the above table, the Risk Weighted IM Value is simply the Auction Pool IM Value attributed to an Auction Pool multiplied by the Auction Pool Risk Weighting. The Auction Pool Weighting for an Auction Pool is the Risk Weighted IM Value for that Auction Pool divided by the sum of the Risk Weighted IM Values for all Auction Pools.

The Auction Pool Weighting is then applied to each OTC Participant's OTC Commitment to determine each OTC Participant's Weighted OTC Commitment in respect of a particular Auction Pool.

In this Default scenario all Non-Defaulting OTC Participants are Mandatory OTC Participants in respect of each Auction Pool. Each Non-Defaulting OTC Participant's OTC Commitment is consequently split across each Auction Pool as follows:

<b>Mandatory OTC Participant</b>	<b>Auction Pool A Weighted OTC Commitment Amount (AUD)</b>	<b>Auction Pool B Weighted OTC Commitment Amount (AUD)</b>	<b>Auction Pool C Weighted OTC Commitment Amount (AUD)</b>	<b>Auction Pool D Weighted OTC Commitment Amount (AUD)</b>	<b>Total OTC Commitment Amount (AUD)</b>
Apple Bank	10,416,667	5,208,333	3,125,000	6,250,000	25,000,000
Orange Bank	5,416,667	2,708,333	1,625,000	3,250,000	13,000,000
Pear Bank	5,000,000	2,500,000	1,500,000	3,000,000	12,000,000
Peach Bank	4,166,667	2,083,333	1,250,000	2,500,000	10,000,000
Banana Bank	3,750,000	1,875,000	1,125,000	2,250,000	9,000,000

<b>Mandatory OTC Participant</b>	<b>Auction Pool A Weighted OTC Commitment Amount (AUD)</b>	<b>Auction Pool B Weighted OTC Commitment Amount (AUD)</b>	<b>Auction Pool C Weighted OTC Commitment Amount (AUD)</b>	<b>Auction Pool D Weighted OTC Commitment Amount (AUD)</b>	<b>Total OTC Commitment Amount (AUD)</b>
Tomato Bank	3,333,333	1,666,667	1,000,000	2,000,000	8,000,000
Olive Bank	2,916,667	1,458,333	875,000	1,750,000	7,000,000
Carrot Bank	2,500,000	1,250,000	750,000	1,500,000	6,000,000
<b>Total</b>	<b>37,500,000</b>	<b>18,750,000</b>	<b>11,250,000</b>	<b>22,500,000</b>	<b>90,000,000</b>

**Table 4: OTC Commitment apportionment across Auction Pools**

The calculation of the apportionment of each OTC Participant's OTC Commitment across all Auction Pools as set out in Table 4 above is shown below using Apple Bank as an example.

Apple Bank has an OTC Commitment of AUD 25,000,000 which is required to be apportioned across the four Auction Pools. Although there are a number of ways to arrive at the same result, for the purposes of this illustration:

Weighted OTC Commitment Amount for a particular Auction Pool = (Risk Weighted IM Value for such Auction Pool ÷ sum of the Risk Weighted IM Values for each Auction Pool) × OTC Participant's OTC Commitment

Apple Bank's Weighted OTC Commitment Amount for:

Auction Pool A = (\$100m ÷ \$240m) × \$25m = \$10.416m

Auction Pool B = (\$50m ÷ \$240m) × \$25m = \$5.208m

Auction Pool C = (\$30m ÷ \$240m) × \$25m = \$3.125m

Auction Pool D = (\$60m ÷ \$240m) × \$25m = \$6.25m

The DM Auctions in respect of each Auction Pool take place and the submitted Bids were ranked from highest to lowest in accordance with Paragraph 5.3 (Priority Groups and Commitment Application Amounts) of Schedule 3 of the OTC Rulebook. The resulting order in relation to each Mandatory OTC Participant was as follows:

<b>Rank</b>	<b>DM Auction A</b>	<b>DM Auction B</b>	<b>DM Auction C</b>	<b>DM Auction D</b>
Winner	Peach Bank	Apple Bank	Orange Bank	Banana Bank
2nd	Tomato Bank	Olive Bank	Tomato Bank	Pear Bank
3rd	Banana Bank	Banana Bank	Carrot Bank	Peach Bank
4th	Apple Bank	Orange Bank	Apple Bank	Tomato Bank
5th	Carrot Bank	Pear Bank	Pear Bank	Olive Bank

Rank	DM Auction A	DM Auction B	DM Auction C	DM Auction D
6th	Orange Bank	Peach Bank	Olive Bank	Carrot Bank
7th	Olive Bank	Carrot Bank	Peach Bank	Apple Bank
8th	Pear Bank	Tomato Bank	Banana Bank	Orange Bank

**Table 5: DM Auction Bid Ranking**

Application of the respective OTC Commitments of each Mandatory OTC Participant calculated in Table 4 arrives at the following matrix of OTC Commitments ranked for the purpose of juniorisation. Each Non-Defaulting OTC Participant's OTC Commitment available for application in respect of each DM Auction is ranked according to their Bid in each of the DM Auctions:

Rank	DM Auction A		DM Auction B		DM Auction C		DM Auction D		OTC Commitment available (AUD)
Win	Peach	4,166,667	Apple	5,208,333	Orange	1,625,000	Banana	2,250,000	13,250,000
2nd	Tomato	3,333,333	Olive	1,458,333	Tomato	1,000,000	Pear	3,000,000	8,791,667
3rd	Banana	3,750,000	Banana	1,875,000	Carrot	750,000	Peach	2,500,000	8,875,000
4th	Apple	10,416,667	Orange	2,708,333	Apple	3,125,000	Tomato	2,000,000	18,250,000
5th	Carrot	2,500,000	Pear	2,500,000	Pear	1,500,000	Olive	1,750,000	8,250,000
6th	Orange	5,416,667	Peach	2,083,333	Olive	875,000	Carrot	1,500,000	9,875,000
7th	Olive	2,916,667	Carrot	1,250,000	Peach	1,250,000	Apple	6,250,000	11,666,667
8th	Pear	5,000,000	Tomato	1,666,667	Banana	1,125,000	Orange	3,250,000	11,041,667
<b>Total</b>		<b>37,500,000</b>		<b>18,750,000</b>		<b>11,250,000</b>		<b>22,500,000</b>	<b>90,000,000</b>

**Table 6: Multiple Highest Bidder Wins DM Auction Results**

In accordance with Paragraph 5.3 (Priority Groups and Commitment Application Amounts) of Schedule 3 of the OTC Rules ASX Clear (Futures) groups the OTC Participants into Priority Groups using these rankings, from those who provided the lowest Bids to those who provided the highest Bids across all DM Auctions. The OTC Commitment of each Mandatory OTC Participant is then applied in sequential order across the Priority Groups from lowest ranking Priority Group to highest ranking Priority Group (i.e. those Mandatory OTC Participants whose Bids ranked 8<sup>th</sup> have their Weighted OTC Commitment Amount for such Auction Pool applied equally first which equals \$11,041,667). Assuming there was \$50,000,000 of Losses the following apportionment would occur amongst the Mandatory OTC Participants:

The Mandatory OTC Participants comprised in the lowest Priority Group (those Mandatory OTC Participants ranked 8<sup>th</sup> in Table 6) have their OTC Commitments applied first:

<b>Mandatory OTC Participant</b>	<b>DM Auction A Weighted OTC Commitment Amount (AUD)</b>	<b>DM Auction B Weighted OTC Commitment Amount (AUD)</b>	<b>DM Auction C Weighted OTC Commitment Amount (AUD)</b>	<b>DM Auction D Weighted OTC Commitment Amount (AUD)</b>	<b>Total OTC Commitment Amount applied (AUD)</b>
Apple Bank					
Orange Bank				3,250,000	3,250,000
Pear Bank	5,000,000				5,000,000
Peach Bank					
Banana Bank			1,125,000		1,125,000
Tomato Bank		1,666,667			1,666,667
Olive Bank					
Carrot Bank					
<b>Total</b>	<b>5,000,000</b>	<b>1,666,667</b>	<b>1,125,000</b>	<b>3,250,000</b>	<b>11,041,667</b>

**Table 7: Lowest Priority Group OTC Commitments applied first**

Following the application of the Weighted OTC Commitments of the Mandatory OTC Participants comprised in the lowest Priority Group, the Mandatory OTC Participants comprised in the second lowest Priority Group (those Mandatory OTC Participants ranked 7<sup>th</sup> in Table 6) have their Weighted OTC Commitments applied as shown below in Table 8:

<b>Mandatory OTC Participant</b>	<b>DM Auction A Weighted OTC Commitment Amount (AUD)</b>	<b>DM Auction B Weighted OTC Commitment Amount (AUD)</b>	<b>DM Auction C Weighted OTC Commitment Amount (AUD)</b>	<b>DM Auction D Weighted OTC Commitment Amount (AUD)</b>	<b>Total OTC Commitment Amount applied (AUD)</b>
Apple Bank				6,250,000	6,250,000
Orange Bank				3,250,000	3,250,000
Pear Bank	5,000,000				5,000,000
Peach Bank			1,250,000		1,250,000
Banana Bank			1,125,000		1,125,000
Tomato Bank		1,666,667			1,666,667
Olive Bank	2,916,667				2,916,667
Carrot Bank		1,250,000			1,250,000

<b>Mandatory OTC Participant</b>	<b>DM Auction A Weighted OTC Commitment Amount (AUD)</b>	<b>DM Auction B Weighted OTC Commitment Amount (AUD)</b>	<b>DM Auction C Weighted OTC Commitment Amount (AUD)</b>	<b>DM Auction D Weighted OTC Commitment Amount (AUD)</b>	<b>Total OTC Commitment Amount applied (AUD)</b>
<b>Total</b>	<b>7,916,667</b>	<b>2,916,667</b>	<b>2,375,000</b>	<b>9,500,000</b>	<b>22,708,334</b>

Table 8: 8<sup>th</sup> and 7<sup>th</sup> highest ranked Priority Group OTC Commitment Loss allocation

The Weighted OTC Commitments of the Mandatory OTC Participants comprised in the next highest Priority Group (those ranked 6<sup>th</sup> in Table 6) are then applied as follows:

<b>Mandatory OTC Participant</b>	<b>DM Auction A Weighted OTC Commitment Amount (AUD)</b>	<b>DM Auction B Weighted OTC Commitment Amount (AUD)</b>	<b>DM Auction C Weighted OTC Commitment Amount (AUD)</b>	<b>DM Auction D Weighted OTC Commitment Amount (AUD)</b>	<b>Total OTC Commitment Amount applied (AUD)</b>
Apple Bank				6,250,000	6,250,000
Orange Bank	5,416,667			3,250,000	8,666,667
Pear Bank	5,000,000				5,000,000
Peach Bank		2,083,333	1,250,000		3,333,333
Banana Bank			1,125,000		1,125,000
Tomato Bank		1,666,667			1,666,667
Olive Bank	2,916,667		875,000		3,791,667
Carrot Bank		1,250,000		1,500,000	2,750,000
<b>Total</b>	<b>13,333,334</b>	<b>5,000,000</b>	<b>3,250,000</b>	<b>11,000,000</b>	<b>32,583,334</b>

Table 9: 8<sup>th</sup>, 7<sup>th</sup> and 6<sup>th</sup> highest ranked Priority Group OTC Commitment Loss Allocation

The Weighted OTC Commitments of the Mandatory OTC Participants comprised in the next highest Priority Group (those ranked 5<sup>th</sup> in Table 6) are then applied as follows:

<b>Mandatory OTC Participant</b>	<b>DM Auction A Weighted OTC Commitment Amount (AUD)</b>	<b>DM Auction B Weighted OTC Commitment Amount (AUD)</b>	<b>DM Auction C Weighted OTC Commitment Amount (AUD)</b>	<b>DM Auction D Weighted OTC Commitment Amount (AUD)</b>	<b>Total OTC Commitment Amount applied (AUD)</b>
Apple Bank				6,250,000	6,250,000
Orange Bank	5,416,667			3,250,000	8,666,667

Pear Bank	5,000,000	2,500,000	1,500,000		9,000,000
Peach Bank		2,083,333	1,250,000		3,333,333
Banana Bank			1,125,000		1,125,000
Tomato Bank		1,666,667			1,666,667
Olive Bank	2,916,667		875,000	1,750,000	5,541,667
Carrot Bank	2,500,000	1,250,000		1,500,000	5,250,000
<b>Total</b>	<b>15,833,334</b>	<b>7,500,000</b>	<b>4,750,000</b>	<b>12,750,000</b>	<b>40,833,334</b>

**Table 10: 8<sup>th</sup>, 7<sup>th</sup>, 6<sup>th</sup> and 5<sup>th</sup> highest ranked Priority Group OTC Commitment Loss Allocation**

As there is a total of AUD 50,000,000 Loss, following the application of OTC Commitment for each of the 4 lowest Priority Groups, the remaining Loss is less than the OTC Commitment available for application across the next highest Priority Group. The remaining Loss is applied proportionately across each Mandatory OTC Participant's Weighted OTC Commitment Amount for each Auction Pool allocated to such Priority Group.

The remaining Loss is  $\$50,000,000 - \$40,883,334 = \$9,166,667$ .

The Weighted OTC Commitments of the Mandatory OTC Participants comprised in the 4<sup>th</sup> highest Priority Group are applied in the same ratio as they have at risk in that Priority Group.

DM Auction	Mandatory OTC Participant	Weighted OTC Commitment Amount at risk (AUD)	Weighted OTC Commitment Amount applied (AUD)
A	Apple Bank	10,416,667	5,232,116
B	Orange Bank	2,708,333	1,360,350
C	Apple Bank	3,125,000	1,569,635
D	Tomato Bank	2,000,000	1,004,566
	<b>Total</b>	<b>18,250,000</b>	<b>9,166,667</b>

**Table 11: Application and apportionment of OTC Commitment to 4<sup>th</sup> placed bidders in the DM Auctions**

When applied to the juniorisation matrix it results in an application of the Weighted OTC Commitment of each Mandatory OTC Participant to meet the entire AUD 50,000,000 of Losses as follows:

Mandatory OTC Participant	DM Auction A Weighted OTC Commitment Amount (AUD)	DM Auction B Weighted OTC Commitment Amount (AUD)	DM Auction C Weighted OTC Commitment Amount (AUD)	DM Auction D Weighted OTC Commitment Amount (AUD)	Total OTC Commitment Amount applied (AUD)
Apple Bank	5,232,116		1,569,635	6,250,000	13,051,751

Orange Bank	5,416,667	1,360,350		3,250,000	10,027,017
Pear Bank	5,000,000	2,500,000	1,500,000		9,000,000
Peach Bank		2,083,333	1,250,000		3,333,333
Banana Bank			1,125,000		1,125,000
Tomato Bank		1,666,667		1,004,566	2,671,233
Olive Bank	2,916,667		875,000	1,750,000	5,541,667
Carrot Bank	2,500,000	1,250,000		1,500,000	5,250,000
<b>Total</b>	<b>21,065,450</b>	<b>8,860,350</b>	<b>6,319,635</b>	<b>13,754,566</b>	<b>50,000,001</b>

Table 12: Weighted OTC Commitment contributions following Juniorisation

### 3 Multiple Highest Bidder Wins Auction Format DM Auctions where one OTC Participant is not a Mandatory OTC Participant in respect of all Auction Pools

Assume that ASX Clear (Futures) determines that four Auction Pools should be created in respect of a Defaulted OTC Participant in accordance with Paragraph 4.3 (Auction Pools and Auction Pool Weighting) of Schedule 3 of the OTC Rules.

Assume that Carrot Bank is not a Mandatory OTC Participant in respect of Auction Pool C and Auction Pool D as, in accordance with Paragraph 4.5 (Mandatory OTC Participants) of Schedule 3 of the OTC Rules, at the time of default of the Defaulted OTC Participant they did not have any OTC Open Contracts in the relevant Auction Pools. However, Carrot Bank is a Mandatory OTC Participant in respect of Auction Pool A and Auction Pool B, and as such their OTC Commitment is applied across those Auction Pools only.

The allocation of Carrot Bank's OTC Commitment across two Auction Pools only alters the allocation of the OTC Commitment of the other OTC Participants across the four Auction Pools. The Weighted OTC Commitment Amounts for each OTC Participant across the Auction Pools is shown in Table 13 below.

OTC Participant	Auction Pool A Weighted OTC Commitment Amount (AUD)	Auction Pool B Weighted OTC Commitment Amount (AUD)	Auction Pool C Weighted OTC Commitment Amount (AUD)	Auction Pool D Weighted OTC Commitment Amount (AUD)	Total OTC Commitment Amount (AUD)
Apple Bank	9,970,238.10	4,985,119.05	3,348,214	6,696,429	25,000,000
Orange Bank	5,184,523.81	2,592,261.90	1,741,071	3,482,143	13,000,000
Pear Bank	4,785,714.29	2,392,857.14	1,607,143	3,214,286	12,000,000
Peach Bank	3,988,095.24	1,994,047.62	1,339,286	2,678,571	10,000,000
Banana Bank	3,589,285.71	1,794,642.86	1,205,357	2,410,714	9,000,000
Tomato Bank	3,190,476.19	1,595,238.10	1,071,429	2,142,857	8,000,000
Olive Bank	2,791,666.67	1,395,833.33	937,500	1,875,000	7,000,000

Carrot Bank	4,000,000	2,000,000	0	0	6,000,000
<b>Total</b>	<b>37,500,000</b>	<b>18,750,000</b>	<b>11,250,000</b>	<b>22,500,000</b>	<b>90,000,000</b>

**Table 13: Weighted OTC Commitment allocation for Juniorisation**

ASX Clear (Futures) may adjust the Weighted OTC Commitment Amounts of each OTC Participant to take into account the re-weighting which it determines is required in accordance with Paragraph 5.2 (Weighted OTC Commitment Amount) of Schedule 3 of the OTC Rules. The adjustments required may be achieved in multiple ways but for the purposes of illustration one method is described below.

Firstly the OTC Commitment of the OTC Participant that is not a Mandatory OTC Participant in respect of an Auction Pool is attributed to each Auction Pool in which it is a Mandatory OTC Participant.

The OTC Commitment of Carrot Bank is required to be apportioned across two Auction Pools only. The Auction Pool Weighting for each of Auction Pools A and B for Carrot Bank is calculated in accordance with the procedures set out in paragraph 5.2 (Weighted OTC Commitment Amount) of Schedule 3 of the OTC Rules as if the only Auction Pools were Auction Pools A and B. It is then applied to determine the Weighted OTC Commitment Amount for Carrot Bank:

Carrot Bank's Weighted OTC Commitment Amount for:

Auction Pool A =  $(\$100\text{m} \div \$150\text{m}) \times \$6\text{m} = \$4\text{m}$

Auction Pool B =  $(\$50\text{m} \div \$150\text{m}) \times \$6\text{m} = \$2\text{m}$

Following these calculations, the Auction Pool Weighting for each Auction Pool in respect of each other OTC Participant is then calculated after allowing for Carrot Bank's "skewed" application of its OTC Commitment:

Auction Pool Weighting for Auction Pool A =  $(\text{total Weighted OTC Commitment Amounts for Auction Pool A} - \text{Weighted OTC Commitment Amounts already applied}) \div (\text{Total OTC Commitments of all Non-Defaulting OTC Participants} - \text{OTC Commitments already allocated})$

$(\$37.5\text{m} - \$4\text{m}) \div (\$90\text{m} - \$6\text{m}) = 0.3988$

The Auction Pool Weighting is then applied in accordance with the procedures set out in paragraph 5.2 of Schedule 3 of the OTC Rules to determine the Weighted OTC Commitment Amount of each remaining Mandatory OTC Participant for each Auction Pool:

Apple Bank's Weighted OTC Commitment Amount for Auction Pool A =  $0.3988 \times \$25\text{m} = \$9.970\text{m}$

Orange Bank's Weighted OTC Commitment Amount for Auction Pool B =  $0.3988 \times \$13\text{m} = \$5.184\text{m}$

This process is continued for each Mandatory OTC Participant and for each Auction Pool.

Following completion of each DM Auction the OTC Commitment of each Mandatory OTC Participant is then ranked and allocated to Priority Groups before being applied according to the process set out in Example 2 above.

In order to ensure that the OTC Commitment of each OTC Participant is applied equally across and between Priority Groups, in situations where an OTC Participant is not deemed to be a Mandatory OTC Participant for a particular Auction Pool, ASX Clear (Futures), in consultation with the DMG, may also determine a ranking "placeholder" for each such OTC Participant. Assuming it was determined that Carrot Bank would be placed in the 8<sup>th</sup> and the 5<sup>th</sup> position for DM Auctions C and D respectively. The juniorisation matrix would look as follows.

Rank	DM Auction A		DM Auction B		DM Auction C		DM Auction D		OTC Commitment available (AUD)
Win	Peach	3,988,095	Apple	4,985,119	Orange	1,741,071	Banana	2,410,714	13,125,000
2nd	Tomato	3,190,476	Olive	1,395,833	Tomato	1,071,429	Pear	3,214,286	8,872,024
3rd	Banana	3,589,286	Banana	1,794,643	Apple	3,348,214	Peach	2,678,571	11,410,714
4th	Apple	9,970,238	Orange	2,592,262	Pear	1,607,143	Tomato	2,142,857	16,312,500
5th	Carrot	4,000,000	Pear	2,392,857	Olive	937,500	N/A	N/A	7,330,357
6th	Orange	5,184,524	Peach	1,994,048	Peach	1,339,286	Olive	1,875,000	10,392,857
7th	Olive	2,791,667	Carrot	2,000,000	Banana	1,205,357	Apple	6,696,429	12,693,452
8th	Pear	4,785,714	Tomato	1,595,238	N/A	N/A	Orange	3,482,143	9,863,095
	<b>Total</b>	<b>37,500,000</b>		<b>18,750,000</b>		<b>11,250,000</b>		<b>22,500,000</b>	<b>90,000,000</b>

#### 4 One Multi-Unit Auction Format DM Auction and 3 Highest Bidder Wins Auction Format DM Auctions.

Continuing with the assumption that ASX Clear (Futures) has determined that there are to be four Auction Pools and that Carrot Bank is not a Mandatory OTC Participant in respect of Auction Pools C and D. However, in this scenario ASX Clear (Futures) has determined that DM Auction A will be held in a Multi-Unit Auction Format.

It is decided that the following attributes will be assigned to DM Auction A:

Multiplier	1.40
Auction Unit size (AUD)	2,500,000
Weighted Number of Auction Units	56

**Table 15: Attributes of DM Auction A**

A multiplier is applied to ensure that the number of Auction Units which may be Bid for is greater than the number of Auction Units in the Auction Pool.

For the purposes of this example it is assumed that the value of Initial Margin of the Defaulted OTC Participant for Auction Pool A is \$100,000,000 (see Table 3).

The Weighted Number of Auction Units available to be Bid for in DM Auction A is determined according to the following formula:

Weighted Number of Auction Units = value of Initial Margin of the Defaulted OTC Participant for Auction Pool A ÷ Auction Unit size × multiplier.

For DM Auction A the Weighted Number of Auction Units = \$100,000,000 ÷ 2,500,000 × 1.40 = 56

Using the Proportionate Initial Margin Value allocated to each Mandatory OTC Participant for Auction Pool A by ASX Clear (Futures) and the Weighted Number of Auction Units for such Auction Pool, the minimum number of Auctions Units required to be Bid for by each OTC Participant can be determined. Taking Apple Bank as an example:

Minimum Number of Auction Units for Apple Bank = Proportionate Initial Margin Value for Apple Bank ÷ sum of Proportional Initial Margin Values for all Mandatory OTC Participants for DM Auction A × Weighted Number of Auction Units for DM Auction A

$135,000,000 \div 500,000,000 \times 56 = 15.12$  (rounded up to 16 for the purposes of the DM Auction)

Below is Table 16 showing the rounded Minimum Number of Auction Units required to be Bid for by each Mandatory OTC Participant in DM Auction A.

<b>Mandatory OTC Participant</b>	<b>Proportionate Initial Margin Value (AUD)</b>	<b>Minimum Number of Auction Units required to be Bid for</b>	<b>Rounded Minimum Number of Auction Units required to be Bid for</b>
Apple Bank	135,000,000	15.12	16
Orange Bank	70,000,000	7.84	8
Pear Bank	65,000,000	7.28	8
Peach Bank	55,000,000	6.16	7
Banana Bank	50,000,000	5.60	6
Tomato Bank	39,000,000	4.37	5
Olive Bank	35,000,000	3.92	4
Carrot Bank	51,000,000	5.71	6
<b>Total</b>	<b>500,000,000</b>	<b>56</b>	<b>60</b>

**Table 16: Minimum Number of Auction Units to be Bid for in DM Auction A, a Multi-Unit Auction Format DM Auction**

When DM Auction A was completed the following result occurred (in order of highest Bid value submitted) (Table 17).

<b>Mandatory OTC Participant</b>	<b>Auction Units won</b>
Peach Bank	7
Tomato Bank	5
Banana Bank	6
Apple Bank	16
Carrot Bank	6
Orange Bank	-
Olive Bank	-
Pear Bank	-
<b>Total</b>	<b>40</b>

**Table 17: DM Auction A results, Auction Units won, per Mandatory OTC Participant**

The allocation of OTC Commitments for the purpose of juniorisation is unaffected by the type of DM Auction. Each Bid is still ranked according to price and allocated according to the Auction Pool Weighting for that DM Auction. If an OTC Participant were to submit multiple Bids then the lowest Bid submitted would be used to for the purposes of calculating the juniorisation of their OTC Commitment (note this would not be used for purposes of determining any winning Bid). Multi-Unit Auction Format DM Auctions will only affect the size of the portfolio won by each winner in the DM Auction as multiple winners share the portfolio.

These results are summarised in Table 18.

DM Auction A		DM Auction B		DM Auction C		DM Auction D		Rank		Priority Group application of Loss (AUD)
Peach	3,988,095	Apple	4,985,119	Orange	1,741,071	Banana	2,410,714	Winner	13,125,000	90,000,000
Tomato	3,190,476	Olive	1,395,833	Tomato	1,071,429	Pear	3,214,286	2nd	8,872,024	76,875,000
Banana	3,589,286	Banana	1,794,643	Carrot		Peach	2,678,571	3rd	8,062,500	68,002,976
Apple	9,970,238	Orange	2,592,262	Apple	3,348,214	Tomato	2,142,857	4th	18,053,571	59,940,476
Carrot	4,000,000	Pear	2,392,857	Pear	1,607,143	Olive	1,875,000	5th	9,875,000	41,886,905
Orange	5,184,524	Peach	1,994,048	Olive	937,500	Carrot		6th	8,116,071	32,011,905
Olive	2,791,667	Carrot	2,000,000	Peach	1,339,286	Apple	6,696,429	7th	12,827,381	23,895,833
Pear	4,785,714	Tomato	1,595,238	Banana	1,205,357	Orange	3,482,143	8th	11,068,452	11,068,452
<b>Total</b>	<b>37,500,000</b>		<b>18,750,000</b>		<b>11,250,000</b>		<b>22,500,000</b>		<b>90,000,000</b>	

**Table 18: Summary Results**

# Schedule 6 – Allocation of Loss Worked Example

## 1 Allocation of Loss following default management process

Below is a worked example of how Losses may be allocated following the default management process:

	House	Client 1	Client 2	Client 3	Totals	Notes
$T_0$ IM <sup>^</sup> (Assumed <sup>*</sup> )	500	100	200	200	<b>1000</b>	1
<i>House Positions and Client1 Positions hedged immediately</i>						
$\Delta$ in NPV IM <sup>^</sup> $T_0 \rightarrow T_2$	-200		50	-100	-250	2
$T_2$ Hypothetical IM <sup>^</sup> (after entry into of certain DM Hedging Transactions)	400					3
<i>Client2 Positions and Client3 Positions added to combined portfolio at end of day 2</i>						
$\Delta$ in NPV IM <sup>^</sup> $T_2 \rightarrow T_n$ (Assumed <sup>*</sup> )		-250			-250	4
$\Delta$ in NPV IM <sup>^</sup> $T_0 \rightarrow T_n$					<b>-500</b>	5
DM Auction costs (Assumed <sup>*</sup> )		-100			-100	6
Total costs					<b>-600</b>	7
Split as follows						
$\Delta$ in NPV IM <sup>^</sup> $T_2 \rightarrow T_n$ + DM Auction costs	-175		-87.5	-87.5	-350	8
$\Delta$ in NPV IM <sup>^</sup> $T_0 \rightarrow T_2$	-200		50	-100	-250	9
Total	<b>-375</b>		<b>-37.5</b>	<b>-187.5</b>	<b>-600</b>	10
Allocate Losses to House Positions & Client Positions based on original IM <sup>^</sup>						
	-312.5	-62.5	-37.5	-187.5		11
<b>Return of funds</b>	<b>187.5</b>	<b>37.5</b>	<b>162.5</b>	<b>12.5</b>	<b>400</b>	12

Notes on above table

$T_0$  Day of Default of the Clearing Participant

$T_n$  Day of successful close-out

\* Values labelled "Assumed" are example values made up for this illustration

<sup>^</sup> For the purpose of calculating the relative apportionment percentages across both the Client Account and House Account of the Defaulted Clearing Participant "IM" refers to Initial Margin as calculated by ASX Clear (Futures) and does not also refer to Excess Margin.

1. Assume that ASX Clear (Futures) is holding AUD 1,000 of Initial Margin (IM) split between the House Account and the Client Account of the Defaulted Clearing

Participant. The House Positions of the Defaulted Clearing Participant and Client Positions of Client 1 are subject to Termination while Client 2 and Client 3 have nominated Alternate Clearing Participants for the transfer of their Client Positions. The amount of IM is the amount of IM that was due at the last margin call. If the Default of the Clearing Participant was due to a failure to pay the applicable amount of IM relating to that margin call then any shortfall will be deducted from any returned amounts, see note 12.

2. On day 2, the Variation Margin of the aggregated portfolio of House Positions and Client Positions of Client 1 has decreased by AUD 200. Client 2 and Client 3 have a gain of 50 and a loss of 100 respectively in respect of their Client Positions.
3. At end of  $T_2$  the hypothetical IM of the aggregated portfolio of House Positions and all Client 1 Client Positions after the entry into of some DM Hedging Transactions is AUD 400, while the actual IM of Client 2 and Client 3 remains at AUD 200, giving a total IM at the end of  $T_2$  of AUD 800. At this point assume that neither Client 2 nor Client 3 is accepted by an Alternate Clearing Participant and the respective Client Positions are added to the overall portfolio of the Defaulted Clearing Participant.
4. Between the end of  $T_2$ , and  $T_n$ , the combined portfolio of House Positions and Client Positions loses another AUD 250.
5. The total NPV IM Loss since the Clearing Participant Defaulted is AUD 500.
6. Assume DM Auction costs, including the cost of entering into DM Hedging Transactions are AUD 100,
7. Total Losses equal the change in NPV IM of AUD 500 *plus* DM Auction costs of AUD 100, totalling AUD 600. This leaves AUD 400 remaining to share between the House Account and the 3 Individual Sub-Accounts for each Client.
8. For the period  $T_2$  to  $T_n$  the change in NPV IM (-250) and DM Auction costs (-100) are allocated based on the IM held as detailed in Note 3. In this example, AUD 350 is split accordingly. To elaborate, the House Positions and the Client Positions of Client 1 incur a change in NPV of  $(400 \div 800) \times 350 = -175$ , the Client Positions of Client 2 incur a change in NPV of  $(200 \div 800) \times 350 = -87.5$  and the Client Positions of Client 3 incur a change in NPV of  $(200 \div 800) \times 350 = -87.5$ .
9. For the period  $T_0$  to  $T_n$ , the Losses are brought down as shown in Row 2
10. Total Losses to be allocated is calculated as follows: the combined House Positions and Client 1 Positions the Losses allocated = (NPV IM  $T_0$  to  $T_2$ ) (see note 2) + (NPV IM  $T_2$  to  $T_n$  + DM Auction costs) (see note 8). So in this example, Total Losses of -600 will be apportioned as follows: House and Client 1 combined Losses allocated =  $-200 - 175 = -375$ , Client 2 Losses allocated =  $50 - 87.5 = -37.5$ , Client 3 Losses allocated =  $-100 - 87.5 = -187.5$ .
11. For the House Positions and Client Positions of Client 1, the Losses are allocated as per the original ratio of IM held. In this example, Losses allocated to the House Positions are  $(500 \div 600) \times -375 = -312.5$  and Losses allocated to the Client 1 Positions are  $(100 \div 600) \times -375 = -62.5$
12. The total to return to each account administrator (Original IM (Row1) less Loss allocation (Row 11)). If the Clearing Participant Default was due to a failure to pay a margin call, the shortfall would be deducted from the returned funds.

## Schedule 7 – Attestation

*This schedule sets out the form of Attestation which OTC Participants are required to lodge under OTC Rule 2.14.*

OTC Participant: ..... (“the OTC Participant”)

Year Ended: ..... (“the Period”)

I attest that at all times during the Period the OTC Participant has complied with OTC Rule 2.14:

1. The OTC Participant has access arrangements in place that comply with paragraph (a).
2. The OTC Participant has appropriate arrangements in place for internal authorisation of the submission of OTC Transactions for registration and requests to ~~re-bilateralise~~, cancel, amend or transfer OTC Open Contracts under paragraph (b).  
I am not aware of any submission of an OTC Transaction by the OTC Participant for registration or any request made by the OTC Participant for ~~re-bilateralisation~~, cancellation, amendment or transfer of an OTC Open Contract that was not authorised in accordance with those arrangements.

.....  
Authorised Signatory

Name:

Date:

### INSTRUCTIONS:

This Attestation is to be signed by one authorised signatory who must be a member of the senior executive management of the OTC Participant (at or above the level of the Chief Risk Officer, Chief Compliance Officer or Chief Operating Officer) with responsibility for the matters the subject of this Attestation.

This Attestation is required to be completed and lodged by each OTC Participant within three months of the end of each calendar year.

[\[Explanatory Note: the amendments to Schedule 7 are to account for the removal of the re-bilateralisation provisions\]](#)

**End of Section.**