

Open Positions

ASX Clear (Futures) Operating Rules (extract)



OPERATING RULES & SCHEDULES TO THE OPERATING RULES (extract)

Part 4 – Accounts and Daily Settlement

46 Daily Close-Out of Matched Positions

- 46.1 At the prescribed time on a Business Day of the Exchange, or of any Related Exchange in relation to those Open Positions as determined by ASX Clear (Futures) arising from Exchange and a Related Exchange each Clearing Participant shall advise ASX Clear (Futures), in the manner Prescribed of the number of Open Positions which it wishes to remain open and ASX Clear (Futures) shall Close Out any excess opposite Open Positions. Contracts so Closed Out and the resulting settlement amount shall be payable by or to ASX Clear (Futures) as the case may be.
- 46.2 Any advice provided to ASX Clear (Futures) pursuant to Rule 46.1 shall be made in compliance with any applicable provisions of the Exchange Operating Rules relating to the maintenance of Open Positions at ASX Clear (Futures).
- 46.3 Where a Clearing Participant advises that a request made pursuant to Rule 46.1 was made in error and requests that Open Contracts extinguished in accordance with Rule 46.2 be reinstated ASX Clear (Futures) may subject to the approval of the Relevant Exchange reinstate such Open Contracts and such Open Contracts shall be deemed never to have been Closed Out. Such reinstatement may only occur subject to any conditions imposed by ASX Clear (Futures) including the payment of Margin.
- 46.4 Where Rule 46.1 does not apply to a Related Exchange a Clearing Participant may request ASX Clear (Futures) to Close Out any opposite Open Positions and ASX Clear (Futures) may give effect to such request.
- 46.5 ASX Clear (Futures) may give directions to Clearing Participants to exclude from its advice pursuant to Rule 46.1 certain Open Positions which do not, in the opinion of ASX Clear (Futures), contribute to market liquidity. A Clearing Participant must comply with any such direction given by ASX Clear (Futures).

In the case of any discrepancy between the extracts from the ASX Clear (Futures) Operating Rules listed above and the respective Rules, the ASX Clear (Futures) Operating Rules prevail.

PROCEDURES DETERMINATIONS AND PRACTICE NOTES RELATING TO THE ASX CLEAR (FUTURES) OPERATING RULES

(ABN 91 050 615 864)

Rule 46.1 Daily Close-Out of Matched Positions

An Open Position in a CFD contract cannot be closed out under Rule 46.1 unless the Open Position are for the same beneficial client for the same CFD Contract. The definition of client for the reporting of Open Positions for the Open Interest Charge calculation means;

“Any person, firm or corporation (including a Related Body Corporate) on behalf of whom a Participant or a client of a Participant provides instructions to enter, acquire or dispose of a CFD”.

Rule 46.5 Daily Close-Out of Matched Positions (including Back-to-Back Open Positions)

In accordance with Rule 46.5, ASX Clear (Futures) directs Clearing Participants as to the correct treatment of Back-to-Back Open Positions in this Direction. Where a Clearing Participant fails to comply with this Direction, such a failure will constitute a breach of the Rules and the Clearing Participant will be subject to the disciplinary process associated with such a breach.

Specifically, ASX Clear (Futures) directs Clearing Participants as follows:

- Clearing Participants must Close Out Back-to-Back Open Positions within each Individual Account no later than the time prescribed for the purposes of Rule 46.1 on the Business Day following the creation of those Back-to-Back Open Positions;
- Except as specified below in so far as it relates to Open Positions across multiple Individual Accounts of a single legal entity, Open Positions held within an Individual Account, whether or not it is a sub-account of an Affiliated Account, must not at any time be settled or offset against Open Positions held within another Individual Account or sub-account, unless these positions are formally transferred on market into the same Individual Account; and
- If a Clearing Participant wishes to Close Out Open Positions across multiple Individual Accounts of a single legal entity, the Clearing Participant must ensure legal advice is obtained that such activity does not constitute a breach of the Rules or the law.

Amended 01/07/10

Introduction

Open Interest (OI) is one of a number of indicators of a market's depth of liquidity. Exchange's OI is derived from the summing of Open Positions held by all Clearing Participants in their House Clearing Accounts and Client Clearing Accounts (collectively referred to as “Clearing Accounts”) at the end of each trading day. These figures are

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submitted daily by the relevant Clearing Participant into ASX Clear (Futures)'s OM SECUR clearing system in accordance with Rule 46.1.1

A Clearing Participant would derive the figures to be submitted into OM SECUR from the summing in its back office of Open Positions held in Individual House Accounts² and Individual Client Accounts³ (collectively referred to as "Individual Accounts").⁴ Accordingly, the fundamental level at which market liquidity is held is at the level of the Individual Account.

It has come to ASX Clear (Futures)'s attention that not all Clearing Participants have been netting Individual Accounts in their back offices in a manner which enables the most accurate OI to be derived. In particular, ASX Clear (Futures) is concerned with the failure of certain Clearing Participants to consistently Close Out in their back offices Back-to-Back Open Positions⁵ within Individual Accounts. If submitted into OM SECUR, such Back-to-Back Open Positions may inflate the OI figure without actually indicating an increase in the true liquidity of the market.

To enhance the integrity of OI, ASX Clear (Futures) now requires that, in fulfilling their obligations under Rule 46.1, Clearing Participants must (as outlined in this Direction) Close Out Back-to-Back Open Positions within each Individual Account no later than the time prescribed for the purposes of Rule 46.1 on the Business Day following the creation of those Back-to-Back Open Positions in their back offices in order that such positions do not form part of the total number of Open Positions submitted into OM SECUR towards the relevant Clearing Account.⁶

The Tables below illustrate how Clearing Participants must comply with this Direction.

Amended 01/07/10

Application of this Direction

In Table 1 below, assume that a Client Clearing Account of a Clearing Participant contains Individual Client Accounts which hold the following Open Positions in a particular futures contract⁷:

Table 1 - Example of a Client Clearing Account

<u>Client Clearing Account</u>	<u>Short</u>	<u>Long</u>	<u>Net (to be submitted into OM SECUR)</u>
Individual Client Account 1	-400	+50	-350
Individual Client Account 2	0	+500	+500
Individual Client Account 3	-300	+500	+200
<i>Total</i>	<i>-700</i>	<i>+1050</i>	<i>-350, +700</i>

¹ Rule 46.1 requires a Clearing Participant to advise SFE Clearing on a daily basis of the number of Open Positions which it wishes to remain open. This advice is effected through the Clearing Participant submitting that information into OM SECUR.

² An 'Individual House Account' is an individual account established by an Exchange Participant on its own behalf for the purposes of Trading on the Exchange.

³ An 'Individual Client Account' is an individual account established by an Exchange Participant for a Client for the purposes of Trading on the Exchange.

⁴ The total Open Positions held in a particular Clearing Participant's House Clearing Account should be derived in that Clearing Participant's back office from summing the number of Open Positions held in each of its Individual House Accounts. The total Open Positions held in a particular Clearing Participant's Client Clearing Account should be derived in that Clearing Participant's back office from summing the number of Open Positions held in each of its Individual Client Accounts.

⁵ 'Back-to-Back Open Positions' are Open Positions within an Individual Account which can be matched and settled against each other.

⁶ Such a practice would also reduce the risk of incorrect settlements being made in error.

⁷ The same principle would apply to a House Clearing Account and Individual House Accounts.

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Closing Out Back-to-Back Open Positions in Individual Accounts

In the above table, Individual Client Account 1 holds Back-to-Back Open Positions of 50 lots and Individual Client Account 3 holds Back-to-Back Open Positions of 300 lots. Individual Client Account 2 does not contain any Back-to-Back Open Positions. Before determining each Individual Client Account's contribution to the Client Clearing Account, Back-to-Back Open Positions are to be eliminated from each Individual Client Account in the Clearing Participant's back office. As shown in the 'Net' column of the above table, the resulting net positions to form part of the total to be submitted into OM SECUR would be -350 short in Individual Client Account 1 and +200 long in Individual Client Account 3. As no Back-to-Back Open Positions are held in Individual Client Account 2, the entire +500 long positions held would form part of the total to be submitted into OM SECUR as part of the Client Clearing Account total.

Therefore, for the purposes of submitting the most accurate representation of the Open Positions within the above Client Clearing Account into OM SECUR, the Clearing Participant must submit the gross sum of the individual net positions of each Individual Client Account, -350/+700.

Affiliated Accounts

Individual Accounts may be grouped together as an "Affiliated Account."⁸ Within an Affiliated Account, there may be a mix of long and short positions in a given contract in separate Individual Accounts (sub-accounts). In order to provide an accurate representation of the holdings within an Affiliated Account, Clearing Participants are required to submit the gross sum of the net holdings of each sub-account into OM SECUR. That is, each sub-account within the Affiliated Account, as opposed to the Affiliated Account as a whole, is considered to be an Individual Account for the purposes of calculating and Closing Out Back-to-Back Open Positions.

By way of illustration in the table below, assume that an Affiliated Account of a Clearing Participant contains sub-accounts which hold the following Open Positions in a particular futures contract:

Table 2 - Example of a Client Clearing Account

<u>Client Clearing Account</u>	<u>Short</u>	<u>Long</u>	<u>Net (to be submitted into OM SECUR)</u>
Affiliated Account			
Sub-account 1	0	+100	+100
Sub-account 2	-600	+150	-450
Sub-account 3	-500	+700	+200
<i>Total</i>	<i>-1100</i>	<i>+950</i>	<i>-450, +300</i>

⁸ An Affiliated Account is defined in the Sydney Futures Exchange Limited Business Rules and is also known as an "omnibus account" (but is distinct from a Clearing Account). Affiliated Accounts are often held on behalf of fund management entities and trading desks which run a number of books for different purposes. In addition, SFE Clearing is aware that some Clients mandate use of a single account to trade multiple strategies (for example, long trades for funding, short trades for hedging). SFE Clearing considers that such an account is in fact a number of Individual Accounts comprising an Affiliated Account and should be treated by Clearing Participants as such for the purposes of submitting Open Positions into OM SECUR.

In the case of any discrepancy between the extracts from the ASX Clear (Futures) Operating Rules listed above and the respective Rules, the ASX Clear (Futures) Operating Rules prevail.

Closing Out Back-to-Back Positions in Affiliated Accounts

For the example in the above table, it would not be appropriate for a Clearing Participant to Close Out positions within the Affiliated Account as though the Affiliated Account were one Individual Account (i.e. by netting -1100 short against +950 long, resulting in a net position of -150 short). Rather, each separate sub-account would be netted individually and the resulting net positions form part of the total to be submitted into OM SECUR. In the above table, Sub-account 2 in the Affiliated Account holds Back-to-Back Open Positions of 150 lots and Sub-account 3 holds Back-to-Back Open Positions of 500 lots. Sub-account 1 does not contain any Back-to-Back Open Positions. Before determining each sub-account's contribution to the Client Clearing Account, these Back-to-Back Open Positions must be eliminated from calculation in the Clearing Participant's back office.

As shown in the 'Net' column of the above table, the resulting net positions to form part of the total to be submitted into OM SECUR would be -450 short in Sub-account 2 and +200 long in Sub-account 3. As no Back-to-Back Open Positions are held in Sub-account 1, the entire +100 long positions held would form part of the total to be submitted into OM SECUR as part of the Client Clearing Account total.

Thus for the above Affiliated Account, a -450/+300 holding (which has been derived from a sum of the individual net position figures in each sub-account within the Affiliated Account) would be submitted to OM SECUR as the most accurate representation of the holdings in that Client Clearing Account.

In order that an account can be treated as an Affiliated Account (and be entitled to hold Back-to-Back Open Positions), Participants must request explicit instructions in this regard (as well as the rationale for it) from their clients (which may include entities related to the Participant) and must retain these instructions on file. Further, Participants must instruct their clients to provide them with daily instructions as to the number of Back-to-Back Positions required to be left open in order to report their Affiliated Account in accordance with this Direction.

If a Participant does not receive instructions from its client that an account is being operated as an Affiliate Account, this Direction must be followed and Back-to-Back Open Positions must be closed out of the account. If the Client wishes to operate an account as an Affiliated Account, they must commit to informing the Participant daily of how many open positions are to be maintained (or how many back-to-back positions are to be closed out) in line with this Direction. Amended 01/07/10

Exception to this Direction

Differentiated Deliverable Commodities

This Direction to Close Out Back-to-Back Open Positions outlined above applies to cash-settled contracts (e.g. SPI 200™ futures contracts, Commonwealth Treasury Bond futures contracts etc) and deliverable contracts where all deliverable commodities are functionally identical (e.g. Individual Share Future contracts, currency future contracts etc), as Back-to-Back Open Positions in such contracts do not contribute to market liquidity.

However, Back-to-Back Open Positions which are held in deliverable contracts where the deliverable commodities may vary in quality, nature or some other means (e.g. Greasy Wool) may represent a contribution to market liquidity, where there is intent or likelihood to both take and make a delivery at a single expiry. Accordingly, such Back-to-Back Open Positions may be maintained and included as part of the number of Open Positions submitted into OM SECUR. Amended 01/07/10

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Inappropriate Practices

Except as specified below in so far as it relates to Open Positions across multiple Individual Accounts of a single legal entity, Open Positions held within an Individual Account, whether or not it is a sub-account of an Affiliated Account, must not at any time be settled or offset against Open Positions held within another Individual Account or sub-account, unless these positions are formally transferred on market into the same Individual Account.

Any such activity may represent inappropriate off-market trading and may constitute a breach of the Rules or the law.

If a Clearing Participant wishes to Close Out Open Positions across multiple Individual Accounts of a single legal entity, the Clearing Participant must ensure legal advice is obtained that such activity does not constitute a breach of the Rules or the law.

For example, in Table 1 above, if the Open Positions within Individual Client Account 1 are inappropriately offset against the Open Positions within Individual Client Account 3 the resulting net position would be –150 short. However, the correct number of Open Positions to be included in the total to be submitted to OM SECUR are –350 short for Individual Client Account 1 and +200 long for Individual Client Account 3.

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Implementation

Clearing Participants are required to follow this Direction in their treatment of Back-to-Back Open Positions.

Where a Clearing Participant fails to comply with this Direction, such a failure will constitute a breach of the Rules and the Clearing Participant will be subject to the disciplinary process associated with such a breach.

Clearing Participants are also reminded of the importance of maintaining appropriate Close Out procedures and audit trails. Documentation held in this regard may be reviewed as part of a Clearing Participant compliance inspection or operational review and must be made available to ASX Clear (Futures) on request.

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