ASX 24 Exchange Traded Derivatives

Proposed Client Clearing Service

Frequently Asked Questions –

Clients

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Document Purpose

The purpose of this document is to provide guidance on commonly asked questions that clients of Clearing Participants ("CP") may have about the ASX 24 Exchange Traded Derivatives Client Clearing Service ("ASX ETD Client Clearing Service"). This document is focused on practical and operational issues with regard to the service.

There will be further detail in the procedural documentation, service description and the ASX Clear (Futures) Operating Rules which will be circulated at a later date.

The ASX ETD Client Clearing Service described in this document is a proposal only and is subject to public consultation. The final design of the ASX ETD Client Clearing Service will require regulatory clearance before implementation. Accordingly, the contents of this FAQ may be subject to significant change and should not be relied upon. This document has been provided to you for guidance only and is intended as a broad overview. This document does not, and does not purport to, contain a detailed description of its subject matter. This document does not constitute legal or financial advice.

Some of the information in this document is relevant for ASX OTC Client Clearing Services, please refer to the recently released FAQ document in respect to ASX OTC Client Clearing Services.

Client and Account Set-up

What is the ASX ETD Client Clearing service?

The ASX ETD Client Clearing Service is proposing a client account structure that will enable a CP to offer their Clients an account that provides separate identification and protection of individual Client positions and associated initial margin value, in addition to current net omnibus client account.

What clients will the ASX ETD Client Clearing service be available for?

The ASX ETD Client Clearing Service is available to any person or entity on behalf of whom a CP acts in respect to cleared contracts under the ASX Clear (Futures) Operating Rules

What client accounts will be available?

ASX intends to introduce additional Client Account Options for ASX 24 Exchange Traded Derivatives:

1. Omnibus client account [Existing Structure] – records open positions held by a CP on behalf of one or more Clients. The clearing house calculates initial margin on the net position in that account. In the case of a CP default, Clients should expect to be closed out.

2. Individual client account 'without excess' – records open positions held by a CP on behalf of one Client only. Initial margin is calculated on the basis of the Client's positions exclusively.

This allows the clearing house to port the Client's positions and associated initial margin in the event of the CP's default. If the Client's positions are not ported, the clearing house will close out the positions and return the associated initial margin to the Client directly, less any losses, costs and expenses attributable to closing out the positions.

Collateral is not segregated at the individual client account level and therefore collateral held by the clearing house in excess of the initial margin requirement with respect to the Client's positions cannot be ported with the positions and associated initial margin**.**

What other client account options might the ASX make available in the future?

The ASX is considering two additional client account options and intends to consult stakeholders in 2014 on the design and implementation. These options include:

Individual client account 'with excess' – as for Individual Client account 'without excess', except that collateral is segregated at the individual client account level and therefore excess collateral held by the clearing house may be ported with the Client's positions and associated initial margin. Unlike 'without excess', this option requires Clearing Participants to report to the clearing house the value of excess collateral posted to the clearing house that is referable to each of its Individual client accounts; and

'Fully segregated' individual client account – one possible 'fully segregated' approach may be where a Client's positions and collateral are segregated from those of other Clients, and the clearing house records the cash and specific non-cash collateral (i.e. the particular or equivalent securities), rather than a single initial margin value (as under Individual Client Account 'without excess' and 'with excess' options), in respect of the Client's account. The

positions and the actual collateral held by the clearing house in respect of the Client's account may be ported in the case of a Clearing Participant default.

How will collateral be protected in each account type?

Each CP posts collateral (cash or non-cash collateral) to ASX to satisfy the initial margin requirement calculated by ASX with respect to the participant's Client Accounts. All collateral posted by a CP with respect to Client Accounts is comingled (mixed) by ASX in a single account. Clients have no legal right or interest in collateral posted to ASX.

However, as collateral posted by a CP for initial margin with respect to its Client Accounts is in general funded by the CP's Clients, ASX treats the value of initial margin calculated with respect to each Client Account as belonging to the relevant Clients (in the case of an Omnibus Account) or Client (in the case of an Individual Client Account).

This value may be less than the value of assets actually provided by the Clients or Client to the CP. It is often the case that the CP will retain this difference and will not post it to ASX. However, where a CP posts collateral to ASX in excess of the amount of its initial margin obligation in respect of its Client Accounts ("excess collateral"), the excess collateral is exposed to the risk of losses that may arise in any of its Client Accounts, in the event of the CP's default.

Client Account Option	Key features	Advantages and disadvantages
Omnibus Client Account	The value of ASX's initial margin requirement for the account: • **is not exposed** to losses on the defaulting CP's 'House' (proprietary) positions or positions in other Client Accounts; • **is exposed** to losses on positions of all Clients in the account.	• Each Client in the account is exposed to the risk ('fellow customer risk') that, if the CP defaults, losses incurred by ASX in closing out positions of other Clients in the account will reduce (or exhaust) the collateral available to ASX to return in respect of the account (refer "Return of collateral", below). • Excess collateral is at risk, not only to 'fellow customers' in the same account, but to the risk of losses arising in any Client Account of the CP in the event that it defaults.
Individual Client Account	The value of ASX's initial margin requirement for the account: • **is not exposed** to losses on the defaulting CP's 'House' (proprietary) positions or positions in other Client Accounts; • **is not exposed** to losses on positions of other Clients (as the account consists of a single Client only).	• The Client is not subject to fellow customer risk. • Excess collateral is at risk to losses arising in any Client Account of the CP in the event that it defaults.

What are the porting options in a default scenario for each account type?

In the event of a CP's default, ASX will have the power to transfer (or "port") open positions in a Client Account, with cash collateral to the value of the associated initial margin requirement, as satisfied by the CP at the last end-of-day calculation, to an alternate CP nominated by the Client (in the case of an Individual Client Account). This is dependent on the alternate CP agreeing to the transfer within a defined period of time from ASX's declaration of default (ASX 24 derivatives: up to 24 hours; OTC derivatives: up to 48 hours).

Portability of positions and initial margin value in an Omnibus Client Account could only be achieved if **all** clients nominated the same alternate CP and the alternate CP agreed within the defined period of time. Practically this is deemed highly unlikely and should be taken into consideration by clients when considering their porting options.

The likelihood of the "portability" of open positions and cash collateral for the associated initial margin is affected by the Client Account Option chosen by the Client.

Client Account Option	Key features	Advantages and disadvantages
Omnibus Client Account	Positions recorded in the account are not able to be ported in practice, as porting is dependent on all Clients nominating, and being accepted by, a single alternate CP. It is possible that a Client's positions may be ported without collateral (for initial margin to the alternate CP). ASX will close out (terminate) positions that cannot be ported.	High risk of loss of positions on the CP's default; Clients should expect to have their positions closed out. Porting of positions without collateral is at ASX's discretion. The Client would have to re-collateralise ported positions with the alternate CP. Client exposed to risk of loss on close out of its positions and those of any other Client in the account.
Individual Client Account	Offers a high likelihood of portability where the Client can procure acceptance of its positions by an alternate CP within the prescribed period. The Client has the opportunity to nominate an alternate CP at any time. ASX strongly encourages the Client to have alternate clearing arrangements in place at all times. Positions which are not ported will be closed out.	Positions can be ported, subject to timely acceptance by alternate CP. Specific collateral posted by a Client to the CP (i.e. specific non-cash assets) will not be ported. ASX will liquidate all collateral posted by the CP upon default, and port the value of the associated initial margin requirement. .

Please see Default Management.

How many accounts can a client have?

There is no restriction as to how many individual accounts a client can have, but a client can only be part of one Omnibus account for ASX 24 Exchange Traded Derivatives transactions per CP.

Can a client use the same account for multiple CPs?

No there is a separate account set up required for each CP that clears trades on behalf of a client.

What impact will the introduction of ASX's Client Clearing Service have on existing client documentation for ASX 24 Exchange Traded Derivatives?

ASX's approach is to minimise the requirement for any changes to documentation between Clearing Participants and their Clients, resulting from the introduction of ASX 24 ETD Client Clearing Service. ASX does not, and does not propose to, prescribe the form of documentation between Clearing Participants and their Clients. ASX's Operating Rules do prescribe certain minimum terms that must be included in a written agreement between a Clearing Participant and its Client in relation to ASX 24 Exchange Traded Derivatives clearing. These minimum terms will also apply to client agreements for OTC Interest Rate Derivatives clearing. Two existing minimum terms will not apply under the Client Protection Model, as they are specific to the principal model of client clearing and inconsistent with the Client Protection Model:

- a Client obtains no right or benefit upon registration of a contract with ASX; and
- the Client has no rights against anyone other than its Clearing Participant.

It should not be necessary for Clearing Participants to revise their agreements with existing Clients as a result of this change. That is because under the Client Protection Model, the Client, its Clearing Participant and ASX become parties to cleared contracts in accordance with Part 10 of the Futures Rules. One of the terms of this agreement is that it takes precedence over any other agreement between a Clearing Participant and its Client which is inconsistent with it. Stated another way, the rights that accrue to a Client under the Client Protection Model are conferred by ASX's Operating Rules rather than any bilateral agreement between the Clearing Participant and Client, and accordingly the implementation of the Client Protection Model is not dependent on amendments to existing bilateral documentation.

All Clearing Participants will be required to ensure that ASX's Client Fact Sheet is made available to all Clients, both existing and new. Please refer to the rules consultation paper released by the ASX on 28th August 2013 in relation to the Client Clearing Service for ASX 24 Exchange Traded Derivatives and OTC Interest Rate Derivatives for further details.

What information is required to be provided to the ASX for ASX 24 Exchange Traded Derivatives Client Clearing?

Individual Client account

The following Client information will need to be provided to the ASX:

- Client Default Management Contact Details
- Client Operations contacts
- Client Legal contacts
- Client nominated alternate CP's

Client Accounts are opened by ASX on request of a Client's CP, although Clients themselves will have the requirement to provide details relating to client contact details and any alternate CP arrangements

The ASX intends to provide an online Static Data Portal to facilitate information required by Clients and CPs for on boarding clients with the ASX. There will be an ongoing obligation for Clients to provide and maintain current information with the ASX.

The Clearing Process

What products are covered in ASX ETD Client Clearing Services?

All ASX 24 products across SFE, NZF and CFD exchanges

Is there a change to ASX 24 ETD Trading Opening Hours?

There are no changes to the existing trading hours introduced through ASX 24 Exchange Traded Derivatives Client Clearing Services.

ASX Trade24 is available on a 24/6 basis from early Monday morning to Saturday morning, AEST. Please visit the ASX website for further details of trading hours per product http://www.asx.com.au/about/trading-hours.htm

Is there a change to ASX 24 ETD Clearing Opening Hours?

There are no changes to the existing clearing hours introduced through ASX 24 Exchange Traded Derivatives Client Clearing Services.

CPs will continue to allocate trades as per existing system functionality

Are there any changes to how trades are executed as a result of ASX ETD Client Clearing Services?

There are no changes to the trade execution process.

Risk Management

What is ASX's Risk Methodology?

The ASX Clear (Futures) Risk Management approach is based on methodologies that are commonly used and considered to be international best practice. Margin requirements calculated are a primary daily obligation that a CP is required to collateralise with the ASX on a client's behalf. It should be noted that the amount of margin the client is expected to collateralise with its CP may not match ASX calculations, for example a CP may charge an additional amount on top of any initial margin requirements calculated by ASX.

Are there any changes to the Initial Margin or Variation Margin process under ASX ETD Client Clearing Services?

Initial and Variation margin on exchange traded futures positions will be calculated using the same methodologies currently employed today, however initial margin calculations will be performed on an account by account basis i.e. separate margin requirements will be determined for individual client accounts and the net client omnibus account.

Account level Initial margin requirements will be calculated using the widely adopted SPAN (Standard Portfolio Analysis of Risk) margining system, assessing the maximum potential loss on a given portfolio. Variation margin will continue to be assessed by marking all open contracts to end of day settlement prices.

With the introduction of the ASX OTC Client Clearing Service, CPs and their clients will have the ability to nominate eligible exchange traded futures positions to be cross margined. Any futures position that are accepted for cross margining will be margined using the methodologies defined as part of the OTC service. Additional information can be found through the OTC Client Clearing FAQ document.

In addition to Variation Margin and Initial Margin, are there any other types of margin?

Yes, Stress Test Additional Initial Margins (AIMs) and Capital Based Position Limit (CPBL) additional margin.

What are Stress Test AIMs?

Additional Initial Margins (AIMs) are additional requirements that may arise through ASX's stress testing regime, where an additional margin requirement may be imposed on a CP as a result of a breach in monitoring their stressed exposures against an ASX assigned Stress Test Exposure Limits (STEL). Stress testing exposures will look at hypothetical losses generated on all positions in extreme but plausible market conditions. Calculations are performed at an account level before being aggregated to a CP total. In monitoring these exposures, an AIMs calls will only be made where total losses exceed a CPs assigned STEL.

Although ASX does not directly charge the client AIMs, reporting is provided to CPs detailing exposures across all accounts. If an AIMs call is made, the CP may choose to recoup the costs or pass on a portion of that AIMs requirement to the end client.

What is Capital Based Position Limit (CBPL) additional margin?

CBPL is a measure used to ensure that CPs do not accumulate positions that exceed their financial capacity. CBPL limits are calculated using initial margin as a measure of the size of a portfolio, and a CPs NTA as a measure of a

CPs creditworthiness or financial capacity. If initial margin is more than twice the size of a CPs NTA, additional margin will be called to reduce this ratio.

What is ASX's intraday margining approach?

ASX's intraday calculations seek to assess two main components of a CP or client's portfolio: the change in value and risk on the existing portfolio and any increased risk associated with new trades. Should there be sufficient initial margin erosion as a result of new positions, or movement in prices, an intraday margin call may be made to reduce ASX's intraday exposures.

What is the impact of intraday margining on clients?

There may be none; this is at the discretion of a client's CP, who may, for example, require its clients to prefund to cover any projected intraday margining activity.

Collateral Management

What is the margin call procedure?

ASX will calculate margin requirements at scheduled intervals intraday and at the end of each business day on both OTC and futures positions. End of day calculations are performed after the close of the clearing service and requirements are notified to CPs the following morning for settlement at 11.00am.

In addition to end of day calculations, there are scheduled intraday margin calculations that run each business day at 8:30am and 11:00am that re-value positions and recalculate Initial Margin requirements. Please refer to the Risk Management section for the explanation of the margin components. If sufficient Initial Margin erosion has occurred on positions, an intraday call will be made. ASX will contact the CP via phone and provide an emailed report (Margin & Position Listing Report) which identifies the amount that the CP needs to settle (on behalf of its clients). Intraday margin calls must then be settled by the CP with $A cash, within the time frame notified by ASX.

ASX may also from time to time initiate an ad hoc intraday margin run in response to stressed or volatile market conditions.

How often will the client need to pay a margin call?

The ASX issues all margin calls to the CP. The CP may have different margin call and collateral payment arrangements in place with its client. Clients should liaise with their CP in relation to their margin call procedures.

What happens if a client disputes a margin call?

The amount ASX calls to cover a client's margin requirements versus the amount the CP asks the client can be different. As ASX has no direct relationship with the client unless their CP is in default, any dispute the client might have about the amount of margin ASX requires from the CP should be directed to the CP. Should there still be any dispute over the margin amount charged then it will be the responsibility of the CP to contact ASX. Note that disputes will be resolved retrospectively after calls have been funded, not in advance.

What collateral does ASX accept?

All Variation Margin payments are required to be settled in cash in the currency of the cash flow; however Initial Margin can be collateralised with cash in an approved non matching currency and or with non-cash collateral in accordance with delivery times specified by ASX.

The following tables list the current eligible collateral and associated valuation haircuts. Please refer to Schedule 5 of the ASX Clear (Futures) Operating Rules for the most current list of eligible collateral and valuation haircuts, as the list may change from time to time.

CASH

Approved Cover	Current Valuation Haircut	
A$ Cash	6%	The Valuation Haircut is not applicable if the currency is the same as that in which the
NZ$ Cash	6%	

Approved Cover	Current Valuation Haircut	
EUR Cash	11%	ASX ETD contract is denominated.
JPY Cash	13%	
USD Cash	10%	
GBP Cash	8%	

Non-Cash Collateral

Approved Cover	Current Valuation Haircut
A$ Treasury Notes	2%
A$ Treasury Bonds	▪ Maturity less than 3 Years: 2% ▪ Maturity greater than 3 Years: 6%
US Treasury Bills	1%

What are haircuts and how are they applied?

A haircut is a percentage reduction on the market value of the collateral that represents the potential movement in value (in stressed market conditions) before ASX can liquidate in the event of a CP default. A CP may advise of alternative haircut arrangements for clients when collateralising margin requirements; however this will need to be discussed directly with your CP

Who does the client send collateral to?

All collateral for covering margin calls is sent to the CP or an agreed third party if there is a tri-party arrangement in place between the CP and the client.

Where is a client's collateral held?

For non-cash collateral, the CP can either:

a) Lodge the collateral with ASX; or

b) Hold the client's collateral and lodge other collateral with ASX.

Does the client receive its exact collateral back?

In a non-default scenario, collateral management is between the client and its CP. If the client holds excess with its CP, and the client wishes this excess to be returned, the client should liaise with their CP for specific timings of when they will receive any excess back from their CP. Please refer to the Default Management section for what happens in a default scenario.

What is excess collateral?

Excess collateral is any collateral value in excess of initial margin requirements on the CPs Client Clearing Account. For the initial launch of ASX 24 ETD Client Clearing, any excess collateral lodged by the CP on behalf of a client, will not be distinguished as belonging to specific accounts. As a result, and in the event that a CP does lodge excess collateral on an individual client account, ASX will be unable to determine which client account(s) the excess collateral relates to.

Accordingly in the event of a Clearing Participant default, only the cash value of initial margin will be ported (where porting arrangements are in place), with the remainder being returned to the CP or an external administrator. . Excess collateral may be applied by ASX to offset:

- losses incurred by ASX upon close-out or termination of positions in any client account of the defaulting Clearing Participant that exceed the initial margin requirement in respect of the account; and
- shortfalls in the liquidated value of non-cash or cross-currency collateral as a consequence of insufficient collateral haircuts.

What happens if the client does not have eligible collateral?

If the client does not have collateral that is eligible under ASX definitions, then it will be at the CP's discretion as to whether they accept non-eligible collateral and substitute it with eligible collateral. ASX does not offer collateral transformation services to clients and CPs.

How can the client view its collateral balance?

The CP will be able to provide details of the client's collateral balance.

How does client collateral get valued?

The collateral that is sent by the CP to ASX is valued daily by ASX and reported back to the CP. The CP is responsible for providing the client with specific valuations for the client's securities collateral.

Cross Margining

What is cross margining?

Cross margining is the concept of allowing trades in instruments in the same or similar asset classes (belonging to the same counterparty) to be included in the calculation of Initial Margin requirements. Positions in multiple asset classes would be included in one portfolio where there is some perceived margin benefit.

Will it be possible to cross margin eligible ASX 24 Exchange Traded Derivatives with new services offered under ASX OTC Interest Rate Futures Client Clearing?

Yes, ASX will provide this feature only for clients who hold OTC and Exchange Traded Derivatives (ETD) positions with the same Clearing Participant. Eligible ASX 24 Exchange Traded Derivatives may be combined with the OTC portfolios for margining purposes. Initial Margin will then be calculated based on the net risk of the combined OTC/Futures portfolio. The client may elect to allocate eligible ASX 24 Exchange Traded Derivatives for cross margining by notifying their CP. Note: the client must have both a separate OTC and Futures Individual Client Account with the same CP to take advantage of cross margining.

Please refer to the recently release ASX OTC Interest Rate Derivatives Proposed Client Clearing Service Frequently Asked Questions (FAQ) on the ASX website

What eligible ASX 24 Exchange Traded Derivatives contracts are eligible for cross margining?

The following eligible ASX 24 Exchange Traded Derivatives contracts are eligible for cross margining:

Eligible ASX 24 Exchange Traded Derivatives 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

How can I find out more about the cross margining eligible ASX 24 Exchange Traded Derivatives with ASX OTC Interest Rate Futures Client Clearing?

Please refer to the recently release ASX OTC Interest Rate Derivatives Proposed Client Clearing Service Frequently Asked Questions (FAQ) on the ASX website

Default Management

What constitutes a default of a CP?

The ASX Clear (Futures) Operating Rules set out a number of events which ASX may treat as a default event. This includes, but is not limited to, bankruptcy of the entity or failure to meet a margin call.

What happens if a client's CP goes into default?

In the event of a CP's default, ASX has the power to transfer (or "port") open positions in a Client Account, with cash collateral to the value of the associated initial margin requirement as at the last end-of-day calculation that the defaulting CP successfully settled. Porting will only be carried out where a Client, with an individually segregated account has nominated an alternate CP and that CP is willing to accept the portfolio (within the specified time frame). Clients that are constituents of a Client Omnibus account will only be ported where all clients agree, and have in place, an alternate clearing arrangement with the same alternate CP.

Once a CP is declared in default, all clearing activity of the CP and its clients are suspended. If a client does have, or establishes a clearing relationship with a non-defaulting CP, the client will still be able to trade, albeit without access to the positions and assets held at the defaulting CP. It is worth noting that in the event that a client is unable to port, its portfolios may be merged with the CP house portfolios for hedging and auction purposes (however clients will remain ring-fenced from losses on the defaulting CPs house account).

What happens to a client's cross-margined positions if its CP goes into default?

In the case of cross-margined positions, the entire portfolio of the OTC and eligible ASX 24 Exchange Traded Derivatives positions must be ported together to the alternate CP. Therefore, if cross-margining is elected, a client's alternate arrangement with a CP must include the ability to clear both OTC derivatives and eligible ASX 24 Exchange Traded Derivatives.

What is an alternate CP?

In the event that a client's primary CP goes into default, a client can select to port their portfolio of positions and cash collateral value (to the value of initial margin calculated by ASX in respect of the Client Account, as settled by the CP at the last end-of-day calculation) to another CP ("alternate CP"). For this reason, whilst not mandatory, it is recommended that a client, with an individually segregated account should nominate at least one alternate CP before a CP default occurs.

What is the timeframe for a client to port / find an alternate CP?

A client will have 24 hours to find an alternate CP if no CP has been nominated. As this process can be time consuming, it is advisable to ensure an alternate CP has been selected in advance (pre-default of the primary CP) e.g. ideally as part of the ASX onboarding process.

How does an alternate CP decide whether it wishes to accept the client's positions?

ASX will provide details of the portfolio in the event of the client's primary CP being in default, this will facilitate the decision process.

Is there anything the client can do to assist the process?

It is not mandatory; however the client may wish to contact their alternate CP during this period.

What happens if a client's positions are not ported?

Where individual client accounts are not ported, ASX will close out (terminate) the positions and return to the client a cash amount equal to the value of initial margin less any costs, losses and expenses incurred by ASX in closing out the positions ("cash amount").

Excess collateral of a defaulting CP, after deducting losses incurred by ASX in managing the CP's default, is always returned by ASX to the CP or its external administrator (if one has been appointed).

Clients must refer to the CP or its external administrator (if one has been appointed) for any portion of excess collateral that is potentially due to be returned.

Client Account Option	Key features	Advantages and disadvantages
Omnibus Client Account	ASX will return the cash amount to the defaulting CP or its external administrator (if one has been appointed).	Access by a Client to any portion of the cash amount to which it is entitled may be delayed by external administration. Access by a Client to any portion of the cash amount is subject to the integrity of the CP's records of the Client's entitlement. Any specific collateral posted by a Client to the CP and subsequently lodged with the ASX (i.e. specific non-cash assets) will not be returned. ASX will liquidate all collateral posted by the CP upon default.
Individual Client Account	ASX will return the cash amount to the Client directly.	Access by the Client to the cash amount will not be held up in the CP's external administration. Any specific collateral posted by a Client to the CP and subsequently lodged with the ASX (i.e. specific non-cash assets) will not be returned. ASX will liquidate all collateral posted by the CP upon default.

Can the client get back its exact collateral?

For any account type, only the CP will know which specific collateral is attributable to each client. The CP can choose what collateral they send to ASX to fulfil the margin obligation, and this may not necessarily be the exact same collateral that the client sent to their CP. However, it is planned in a future release that fully segregated accounts with a specific link between a client and its collateral will be made available hence allowing the return of the exact collateral.

Can the client get back any excess collateral if its CP defaults?

In the event that a clearing participant defaults and positions cannot be ported, a cash amount to the value of initial margin less any costs, losses and expenses incurred by ASX in closing out the positions on all accounts will be returned to the client.

Excess collateral may be applied by ASX to offset: losses incurred by ASX upon close-out or termination of positions in any client account of the defaulting Clearing Participant that exceed the initial margin requirement in respect of the account; and shortfalls in the liquidated value of non-cash or cross-currency collateral as a consequence of insufficient collateral haircuts.

The balance of any excess collateral will be returned to the defaulting CP's appointed administrator.

What is the default fund?

The default fund is the financial resources that the ASX has available to cover the losses that have been incurred following the closing out of positions for a defaulting participant after all the defaulting participants margins and commitments have been exhausted. The financial resources comprise of commitments from participants and funds provided by the ASX group.

What is the risk waterfall?

The risk waterfall determines in which order the financial resources available to ASX are allocated to the losses

Do clients need to contribute to the default fund?

A client is not required to contribute to the default fund. Only CPs are required to contribute.

Reports

What reports will ASX make directly available to clients for ASX ETD Client Clearing Services?

Client Static Data report for Individual Client Accounts

Report contents:

- Client Name, Legal Entity Identifier
- Address Information
- Account Type
- Settings for trade netting
- CP (& alternate CP information)
- Legal, Operations and Default Event contact details and methods

Daily Position and Margin report

Report contents:

- Open Position per Individual Client Account
- Initial Margin value of Open Position per Individual Client Account

Market Data report

Report contents:

- ASX SPAN Risk Parameter File (note this is currently publically available) http://www.asx.com.au/prices/span.htm

Contact Us

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Glossary

Alternate CP – a secondary CP nominated by a client to port a client's positions and assets to in the case the client's primary CP is declared to be in default. . It is preferable but not mandatory for back-up CPs to be nominated in advance of a default.

ASX - ASX Clear (Futures) Pty Limited

Central Counterparty ("CCP") – A piece of market infrastructure that sits between the two original parties to the transaction, taking care of post-trade considerations and guaranteeing performance throughout the life of the transactions. A trade must be novated to face the CCP in order for it to perform these functions.

CP ("CP") - A market participant that joins ASX directly as a 'participant' to clear their own trades and/or those of their clients. In the context of client clearing, a CCP enables its direct CPs "CPs" to intermediate between itself (the CCP) and the indirect Clients (i.e. market participants who are not direct CPs of the clearing service) to facilitate clearing of ASX 24 Exchange Traded Derivative transactions. The CP must segregate house business and client business and these are referred to as follows in the document:

- CP House account – this is the account through which the CP must clear all its own business.
- CP Client account – this is the account which is used to settle the clearing business of all clients of that CP. Margins are settled as one amount.

Client – Indirect participants who do not have direct membership to the ASX and who must clear their ASX 24 Exchange Traded Derivatives through CPs (Direct participants). Clients can be standalone or consist of a group of related entities.

Client Clearing Portfolio Cross Margining ("X-M") account – Records the CP's client clearing eligible ASX 24 Exchange Traded Derivatives positions which are eligible to be portfolio-margined with OTC Interest Rate Derivatives and have been selected by the client to be portfolio-margined with OTC Interest Rate Derivatives

Client Omnibus – Client positions and client assets are held in one account and the CCP cannot identify the individual end client. The CP can cross-utilise client margins and may not place assets with the CCP. Portability with this account structure is only possible if all clients of a defaulting CP port to the same alternate CP.

Cross Margining - The concept of allowing trades in instruments in different asset classes (belonging to the same counterparty) to offset each other for the purpose of measuring Initial Margin.

Entity – Entities are sub accounts of a client. They may be legal entities in their own right or branches/divisions of the Client account

Excess collateral - Collateral posted in excess of margin liabilities or headroom created against existing collateral through a decline in associated margin liabilities. In the event of the CP's default, excess collateral will be at risk to losses arising in respect of any Omnibus Account or Individual Client Account of the CP.

Guaranteed Initial Margin Value – The collateral to be ported by ASX in respect of a client account is a cash amount equal to the value of the initial margin requirement calculated by ASX in respect of the client account at the

last time at which the defaulting CP settled its end of day initial margin obligations with ASX ("**Guaranteed Initial Margin Value**"). That amount excludes the value of end of day margin calls not settled by the defaulting CP and intraday margin calls whether settled or not. Where porting of positions in a client account does not occur, the amount to be returned by ASX is the Guaranteed Initial Margin Value for the account net of losses, costs and expenses attributable to closing out the positions in the account.

Individual Client Account –This structure legally separates positions, but operationally comingles them and the associated collateral. CP's assets and client positions for client clearing are identifiable by the CCP, and cannot be utilised for margining of other clients of the CP. Assets held in a CP's Client Clearing account are not directly attributable to individual clients. The CCP only recognises collateral to the value of initial margin as at the last settlement. In the event of a CP default, it is this amount that would be ported to an alternate CP or (less expenses) returned to the client.

Initial Margin ("IM") – Initial Margin (IM) represents the amount of collateral required by ASX to mitigate market risk on cleared futures positions. ASX uses the widely adopted SPAN (Standard Portfolio Analysis of Risk) margining system to assess the maximum potential loss on a given portfolio. Initial margin can be covered with either cash or eligible non-cash collateral.

Intraday Margin ("ID") – In periods of extreme market volatility, ASX may call its CPs for additional collateral intraday. ASX intends to have a mix of scheduled and ad hoc intraday margin calls throughout the day and based on the level of market volatility relative to existing margin cover.

Portability – The transfer of positions and assets of a client to an alternate CP in the event that their primary CP goes into default.

Variation Margin ("VM") – Variation Margin (VM) represents the Mark to Market movement on open futures positions. VM is currently calculated by marking all open contracts to end of day settlement prices. All VM settlement needs to be in paid in cash and in the same currency as the underlying product