



SFE NOTICE NO.

023/08

Date of Issue: 13 February 2008

Effective Date: 29 February 2008

Changes to SFE Clearing Corporation's Clearing Guarantee Fund, Additional Initial Margins, Stress Test Exposure Limits and Stress Test Scenarios

SFECC implemented a new suite of stress testing scenarios on Tuesday 20th November 2007 – see Notice 142/07. Having previously discussed the impact with Clearing Participants, it was decided that an increase to SFE Clearing Corporation's (SFE Clearing) Clearing Guarantee Fund (CGF) was an appropriate additional step in working towards a long-term solution. Such a change required Operating Rule amendments and the associated regulatory approval. Therefore the scope of the stress testing scenarios was initially limited until the enlarged CGF was in place.

Rulebook and regulatory approval has now been received and ASX is able to implement:-

- the increases to relevant components of the Clearing Guarantee Fund;
- the final two new stress testing scenarios and;
- associated changes to each Clearing Participant's Stress Testing Exposure Limit (STEL).

In addition, following further discussions with the Reserve Bank of Australia regarding the interpretation of the Financial Stability Standards, to recognise counterparty credit quality, ASX will also introduce a discretionary element to the regime through the discounting of AIMs calls by up to 50% in normal market conditions. Details on the changes are outlined below.

Clearing Guarantee Fund

Consistent with previous written and verbal correspondence, SFE Clearing's CGF will increase to \$400m from \$200m, achieved through:

- i) an additional \$20m capital injection from ASX increasing SFE Clearing's committed capital to \$100m;
- ii) a \$90m increase in SFE Clearing's default insurance to \$150m;
- iii) a \$60m increase in First-Level Clearing Participant Commitments to \$120m;
- iv) Second-level commitments are unchanged at \$30m.

The effective date of these increases is **1 March 2008**.

Commitments

To implement item (iii) of the above enhancements the SFE Clearing Board resolved to approve amendments to the Clearing Rules to increase the First-Level Commitment by Clearing Participants.

SFE Clearing will implement the addition to the First-Level Commitment using the same combination of fixed and variable components as underpins the current First-Level Commitment as follows:

Fixed Component: an increase from \$1M to \$2M per Clearing Participant



Variable Component: will continue to be based on each Clearing Participant's average percentage share of aggregate IMs (excluding AIMs) over the prior Commitment quarter as calculated by SFE Clearing such that total aggregate First-Level Commitments including the Fixed Component equals \$120m.

Clearing Participants approved the amendments, in accordance with the requirements of the Clearing Rules, in September 2007. The amendments received regulatory approval in December 2007 and will take effect on 1 March 2008.

Each Clearing Participant's new Commitment requirement will be advised in the normal manner by no later than close of business 18 February and must be settled by cash or Letter of Credit no later than 10:30am on 28 February. A copy of the amended Rules which will be updated on the website on 1 March 2008 is attached for information - See [Attachment 1](#).

Stress Test Exposure Limits and AIMs

In line with the CGF change, Clearing Participant STELs have increased. Based on ASX-assessed financial strength and credit quality criteria, Clearing Participants will be allocated a STEL up to the maximum of the CGF (i.e. up to \$400m).

Moreover, to recognise credit quality and differential default likelihood across Clearing Participants, highly rated and capitalised Clearing Participants may have their AIM calls 'discounted' by up to 50% subject to limits and market conditions. Each Clearing Participant will shortly receive separate advice of their revised STEL and their eligibility for AIMs discounts. AIMs can be satisfied by cash and non-cash collateral as set out in the Clearing Rules.

Note that bank guarantees/Letters of Credit are only acceptable from third party Banks with an S&P short term rating of A-1+ or higher and limits on how much of AIMs may be collateralised by a bank guarantee/Letter of Credit may apply.

SPI200™ Futures Contract Stress Test Scenarios

Participants were advised in October 2007 that deployment of the specific SPI200™ futures contract stress test scenarios would be deferred pending the Rule amendments and increase in SFE Clearing's CGF as noted above. Now that these arrangements have been finalised, the two remaining SPI200™ Futures Contract scenarios will be activated and will impact AIMs calls based on positions as at close of business **29 February for calls made 3 March**. The full list of current scenarios is attached for information - See [Attachment 2](#).

For further information on the matters covered in this Notice, please contact either Simon McCarthy on 02 9227 0161 or David Seare on 02 9227 0532.

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