



# Proposed changes to capital requirements for ASX Clear Participants

**Consultation Paper**

October 2020

## Invitation to comment

ASX is seeking submissions in response to this consultation paper by 30 November 2020.

Submissions should be sent to:  
 E [crateam@asx.com.au](mailto:crateam@asx.com.au)

20 Bridge Street  
 Sydney NSW 2000  
 Attention: Ms Marisa Khan

ASX prefers to receive submissions in electronic form.

If you would like your submission, or any part of it, to be treated as confidential, please indicate this clearly. All submissions will be provided to regulators on request. They may also be published on the ASX website, unless they are clearly marked as confidential or ASX considers that there are reasons not to do so.

ASX is available to meet with interested parties for bilateral discussions on the proposed changes to capital requirements.

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# Contents

1. Purpose of this Paper	3
2. Background	3
2.1. Current capital measures and requirements.....	3
2.2. Issues with current capital requirements.....	3
3. Proposals for market consultation	5
3.1. Single measure of capital .....	5
3.2. ASD limit and temporary increase of ASD limit .....	6
3.3. Change in notification obligation to ASX Clear .....	6
3.4. Miscellaneous amendments .....	6
4. Impact analysis of proposed amendments	7
5. Indicative timeline and system change	7
Appendices	8

## 1. Purpose of this Paper

This consultation paper outlines the new single capital measure that non-bank ASX Clear participants will be required to maintain in accordance with the Risk Based Capital Requirements pursuant to the ASX Clear Operating Rules (“Rules”). The new measure is intended to increase the quality of capital held by a participant by seeking to ensure that its capital is held in high quality liquid assets that are readily available, and will replace the existing two capital measure approach currently used.

ASX welcomes feedback on this proposal (including the draft rule amendments shown in the appendices) in writing by 30 November 2020. If you or your organisation would like to discuss this topic further, please contact ASX (see contact details on page 2).

## 2. Background

### 2.1. Current capital measures and requirements

ASX Clear has two capital regimes currently applicable to Clearing Participants (set out in Rule 5)<sup>1</sup>. These are Risk Based Capital Requirements and Other Capital Regime. This consultation paper sets out proposed changes to the Risk Based Capital Requirements applicable only to non-bank ASX Clear participants.

Under the current Risk Based Capital Requirements, there are two capital measures that are applicable to non-bank ASX Clear participants, being Core Capital and Liquid Capital.

Core Capital comprises paid-up ordinary shares, non-cumulative preference shares, certain reserves and accumulated profits/retained losses. It is akin to tier 1 capital under Basel III and reflects capital which has been injected into the participant irrespective of how it is being used. This capital reflects the loss-bearing capacity of the participant. The minimum core capital requirement (“MCCR”)<sup>2</sup> ranges from \$5m to \$35m depending on the activities undertaken by the participant and the number of trading participants that it clears for. This requirement is generally stable over time.

Liquid Capital is the sum of Core Capital, cumulative preference shares, revaluation reserves<sup>3</sup> and Approved Subordinated Debt less the value of certain assets (e.g. illiquid assets and intercompany receivables)<sup>4</sup> and certain contingent liabilities. Liquid Capital reflects capital that is available for use by the participant. A participant’s Liquid Capital must always be greater than its Total Risk Requirement (“TRR”) which is calculated on the risks from its current positions and exposures and which fluctuates daily.

### 2.2. Issues with current capital requirements

Currently a participant may receive an investment of capital from its parent entity and lend this capital back to the parent entity or some other related entity (*ref Figure 1*). The lending back of capital is not prevented by the current Rules and is simply reflected in Liquid Capital as an Excluded Asset. Unlike the Liquid Capital definition which accounts for the lending back of capital as an Excluded Asset, Core Capital is not adjusted or affected by the lending back of capital.

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<sup>1</sup> A third capital regime included in the ASX Clear Operating Rules is the Net Tangible Assets (NTA) Requirements in ASX Clear Rule 5.1.2 and Schedule 2. The NTA Requirements can only be used by a participant that clears ASX futures only, as there are no futures currently traded on ASX, there are no ASX Clear participants using the NTA Requirements.

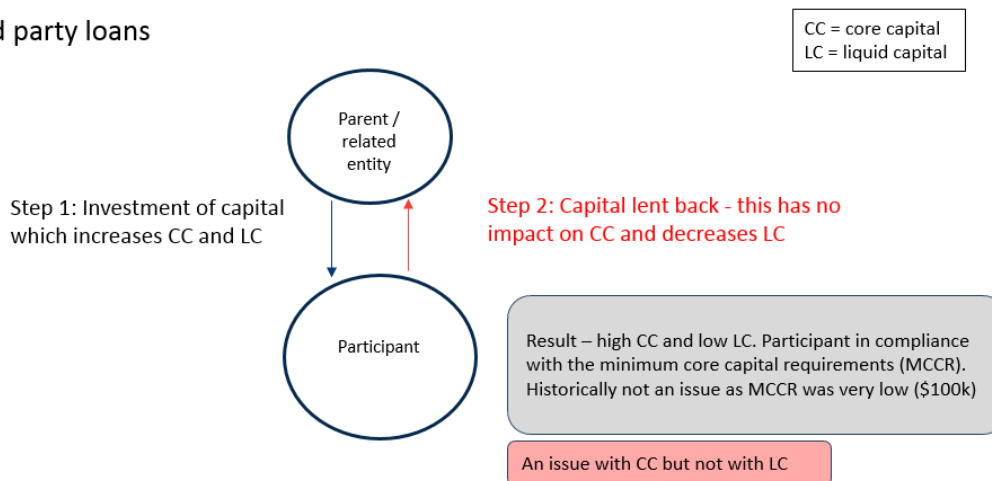
<sup>2</sup> Enhancements were made to the MCCR in 2019.

<sup>3</sup> Other than Financial Asset and Liability Revaluation Reserves.

<sup>4</sup> These are referred to as Excluded Assets in the Rules.

Figure 1

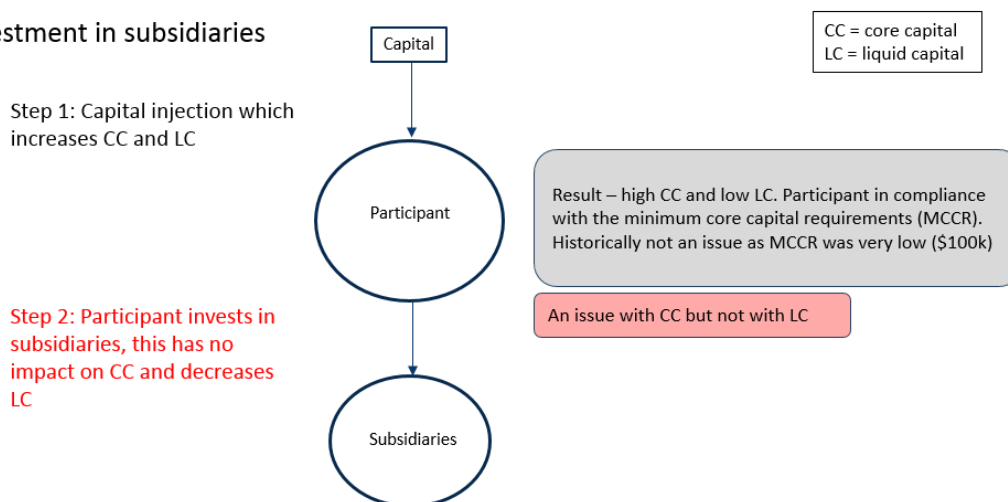
### Related party loans



A participant can also raise capital and then invest the capital in a subsidiary (ref Figure 2). The investment of capital in a subsidiary is not prevented by the current Rules and is simply reflected in Liquid Capital as an Excluded Asset. Unlike the Liquid Capital definition which accounts for the investment of capital in a subsidiary as an Excluded Asset, Core Capital is not adjusted or affected by the investment of capital in a subsidiary.

Figure 2

### Investment in subsidiaries



In both scenarios, in the initial stage where capital is invested in the participant, the participant’s Core Capital and Liquid Capital increase. When the participant lends the money back to the parent/related entity or invests in subsidiaries, the participant’s Core Capital is not impacted and the participant remains in compliance with its MCCR, however the participant’s Liquid Capital would be at a level that is potentially much lower than its Core Capital due to the inter-company movements.

The above scenarios highlighted the need for a capital measure that sufficiently takes into account the nature and quality of assets in which a participant’s capital is held. Whilst previous work undertaken by ASX in enhancing the MCCR has

ensured that each participant’s activities is taken into account in setting their MCCR, by definition, the Core Capital does not reflect how much of that required capital is held in a form that is available for use.

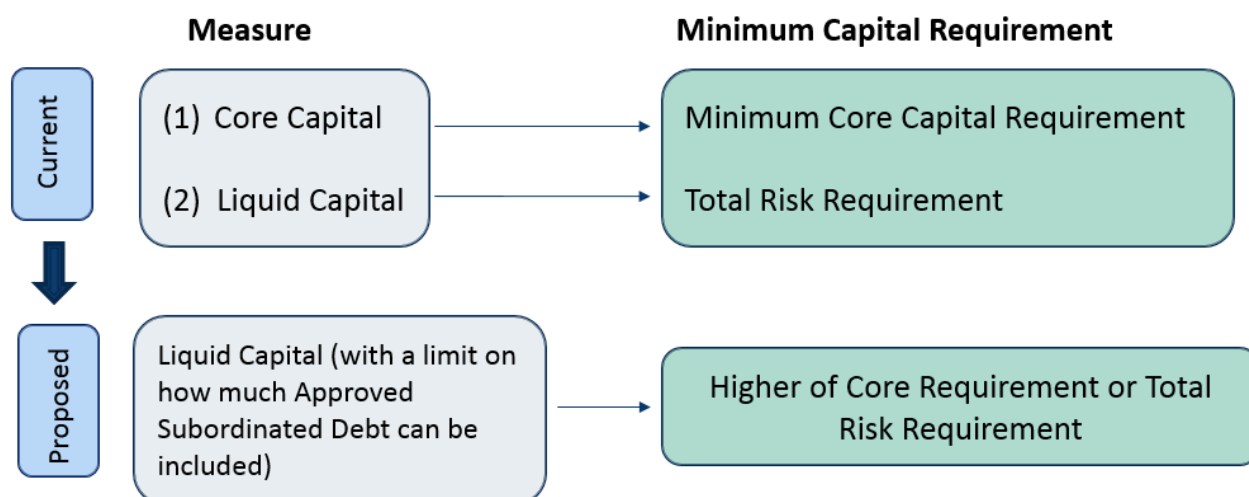
### 3. Proposals for market consultation

#### 3.1. Single measure of capital

To address the issues with the current capital requirements, it is proposed that:

- there is only one measure of capital, this being an adjusted Liquid Capital;
- there is a limit on the amount of Approved Subordinated Debt (“ASD”) that can be included for Liquid Capital purposes (with certain exceptions subject to ASX approval), as outlined in section 3.2; and
- the minimum amount of capital that a participant would be required to maintain (Liquid Capital Requirement) would be the higher of the participant’s Core Requirement (currently termed MCCR) and its TRR.

A visual depiction of the current and new approaches is shown below:



ASX considers the use of Liquid Capital as the single capital measure to be appropriate given it already deducts Excluded Assets (which includes related party loans, investment in subsidiaries and fixed assets). The proposed change to be made to the definition of Liquid Capital introduces a limit on the amount of ASD (see 3.2 below).

The Core Requirement, while not being retained as a separate Core Capital requirement<sup>5</sup>, is being incorporated into the Liquid Capital Requirement such that the new minimum Liquid Capital Requirement continues to take into account each participant’s activities and the potential risk profile (via the Core Requirement) as well as the actual current exposures and positions (via the TRR). The new Liquid Capital Requirement is being introduced to ensure that there is an adequate minimum threshold level of quality capital required of ASX Clear participants.

There will be no change in the way that ASX assesses each participant’s Core Requirement. It will continue to be determined in the same way that MCCR is currently determined based on the number of trading participants the participant clears for and the materiality of client written options activity, non-ASX client activity and own account business.

<sup>5</sup> Participants will still be required to report their Core Capital figures in the monthly capital liquidity returns.

The new single measure of capital is intended to raise the overall quality of capital being held by participants and does so by stipulating that capital held in illiquid form no longer qualifies as capital as it does currently under the Core Capital definition.

Appendix A outlines the draft rule amendments to give effect to the single measure of capital (as well as consequential amendments discussed in sections 3.2 and 3.3).

### 3.2. ASD limit and temporary increase of ASD limit

There is currently no limit on the amount of ASD that can be included in Liquid Capital. Under ASX's proposal, the maximum amount of ASD to be included in Liquid Capital will be the amount of Core Capital held by the participant in excess of \$5m. This is to ensure that each participant maintains a minimum level of capital in the form of equity and to prevent the possibility of a participant meeting its capital requirement predominantly by the use of debt.

ASX acknowledges that limiting the amount of ASD that can be included in Liquid Capital may occasionally pose a problem where a participant's minimum capital requirement is its TRR and the participant experiences a spike in its TRR due to a large trade. ASD can currently be used as a relatively quick way of increasing Liquid Capital to meet the higher requirement. To cater for this scenario, it is proposed that following a request by a participant, ASX will have the discretion to allow a higher amount of ASD to be included in the Liquid Capital for a certain period (e.g. one month). It is envisaged that these occurrences will be rare and span short periods of time. If these occurrences became frequent for a particular participant, ASX would request that the participant provide additional capital as equity, in the form of ordinary shares or preference shares for example, by a certain period of time.

### 3.3. Change in notification obligation to ASX Clear

Under the current Rules, participants have separate Core Capital and Liquid Capital notification obligations. Under the proposed new Rules, there will only be a single notification obligation. This will be to notify ASX Clear when the ratio of Liquid Capital to Liquid Capital Requirement falls to or below 1.2 (irrespective of whether the Liquid Capital Requirement is the Core Requirement or TRR). The participant will then be required to lodge daily or weekly returns depending on the level of the ratio as per Rule S1.2.2(2)(b).

### 3.4. Miscellaneous amendments

ASX would also like to take this opportunity to amend certain aspects of the current Rules, mainly to ensure currency and accuracy of references, as outlined in Appendix B. The miscellaneous amendments being proposed are summarised as follows:

- The definitions of 'Excluded Asset' and 'Related/Associated Person Balance' have been amended to:
  - reflect that funds lodged with persons who are licensed to clear derivatives are carved out of these items, which reflects the current position;
  - update the references in these definitions from 30 days to 31 days, which bring these into line with the definition of Liquid which was amended in November 2017;
- The definition of 'Qualifying Debt Instruments' has been amended to:
  - remove references to credit rating agencies which have been recognised by APRA and instead relying on Table 1.5 of Schedule 1 Annexure 5;
  - remove certain debt instruments which are unrated by deleting paragraph (c);
  - in relation to paragraph (f), expressly provide that debt instruments need to be fully collateralised;
  - fix a typographical error;

Table 1.5 of Schedule 1 Annexure 5 has also been updated to reflect the list of agencies whose credit ratings can be used for the purpose of the definition of Qualifying Debt Instruments, and to clarify the table headings to reflect long term and short term ratings;

- The definition of 'Government Debt Instrument' has been clarified and typographical errors have been fixed;
- Updating the Recognised Market Indexes in Table 1.6 of Schedule 1 Annexure 5 to reflect the current names and adding the Singapore Straits Times Index;

- Ensuring defined terms are capitalised (Equity Net Position and Debt Net Position) (in Tables 2, 3 and 4 of Schedule 1 Annexure 2 and Clauses 9 and 17 of Schedule 1 Annexure 3);
- Table 2.1 of Annexure 5 has been amended to:
  - expressly provide that a 20% risk weighting can be applied for counterparties who are ASX Clear participants that comply with ASX Clear's Risk Based Capital Requirements and market participants subject to ASIC's risk based capital requirements under the ASIC Market Integrity Rules;
  - expressly provide that a 50% risk weighting can be applied for counterparties who are ASX Clear participants that comply with the NTA Requirements, market participants that comply with ASIC's net tangible asset requirements under the Market Integrity Rules, and non-bank ASX Clear (Futures) participants;
  - fix typographical errors;
- Tables 3.1 and 3.2 of Annexure 5 have been amended to:
  - update the names of Recognised Non-European Regulators, including removing a historical reference to Australian Securities Exchange Limited (formerly known as Sydney Futures Exchange). Counterparties that are non-bank ASX 24 or ASX Clear (Futures) participants will still be eligible for a 50% risk weighting by virtue of the changes to Table 2.1;
  - update the names of Recognised European Regulators.

ASX welcomes any feedback on these draft miscellaneous rule amendments.

#### 4. Impact analysis of proposed amendments

The August 2020 capital returns were analysed to determine the impact of the proposed changes. Out of 31 participants, only a small number would have insufficient capital under the new approach and would need to increase their capital in order to be in compliance with the new capital requirement. For all of these participants, the driver of the capital requirement is the Core Requirement rather than the TRR.

#### 5. Indicative timeline and system change

Subject to regulatory clearance, ASX intends to publish the rule amendments in Q2,2021, with the new requirements taking effect 6 months subsequent to the publication of the rule amendments.

The new rule amendments will require some changes to the content of various return types currently available in the Return Lodgement and Monitoring (RLM) system. The system changes will be progressed in parallel with the rule amendments process.

## Appendix A

### ASX CLEAR OPERATING RULES

...

#### SCHEDULE 1 RISK BASED CAPITAL REQUIREMENTS

This schedule sets out the Risk Based Capital Requirements for the purposes of Rule 5.1. A Participant subject to the Risk Based Capital Requirements must comply with this schedule.

S1.1

##### **S1.1.1 Definitions and Interpretation**

In Rule S1, unless the context otherwise requires:

...

“~~Base~~ ~~Core Capital Requirement~~” means the amount specified in Rule S1.2.1(2)(~~ab~~)(~~i~~) (Table A or Table B), as applicable.

...

“Core Requirement” means the sum of the Base Requirement and the amounts specified in Rules S1.2.1(2)(b), (c) and (d) as applicable.

...

“**Liquid Capital**” means the sum of:

- (a) Core Capital;
- (b) cumulative Preference Shares;
- (c) Approved Subordinated Debt limited to the amount specified in the Procedures or approved under Rule S1.2.4(8); and
- (d) revaluation reserves other than Financial Asset and Liability Revaluation Reserves;

less the sum of:

- (e) Excluded Assets;
- (f) Excluded Liabilities.

“Liquid Capital Requirement” means the Core Requirement or the Total Risk Requirement, whichever is the greater.



“**Liquid Margin**” means the amount calculated by deducting the Liquid Capital Requirement ~~Total Risk Requirement~~ amount from the amount of Liquid Capital.

...

S1.2 OBLIGATIONS OF PARTICIPANTS

**S1.2.1 ~~Core Capital, Liquid Capital and Total Risk~~ Liquid Capital Requirement**

(1) ~~Unless a~~ Participant ~~obtains a prior waiver from ASX Clear under Rule 1.6, it~~ must ensure that its:

~~(a) Liquid Capital is at all times greater than its Total Risk Requirement; and Liquid Capital Requirement.~~

~~(b) Core Capital is at all times not less than the sum of the amounts specified in Rules S1.2.1(1)(b)(i) (Table A or Table B), (ii), (iii) and (iv) below as applicable:~~

~~(2) For the purpose of determining a Participant’s Core Requirement:~~

~~(a)~~

Table A – Direct Participants – Base <del>Core Capital</del> Requirement	
\$5,000,000	

Table B – General Participants – Base <del>Core Capital</del> Requirement		
Tier 1	\$5,000,000	Clearing for itself <u>or</u> up to one External.
Tier 2	\$10,000,000	Clearing for: <ul style="list-style-type: none"> <li>• itself and one External, or</li> <li>• two Externals.</li> </ul>
Tier 3	\$15,000,000	Clearing for: <ul style="list-style-type: none"> <li>• itself and two Externals, or</li> <li>• three Externals.</li> </ul>
Tier 4	\$20,000,000	Clearing for: <ul style="list-style-type: none"> <li>• itself and three or more Externals, or</li> <li>• four or more Externals.</li> </ul>

In Table B above, "External" means another Participant or a Market Participant.

~~(i)~~

for a Participant undertaking client written options clearing other than for which specific Cover is lodged, as described in the Procedures, which ASX Clear has determined:

~~A(i)~~ to be de minimis - \$0;

~~B(ii)~~: not to be de minimis or material - \$2,500,000;

~~C(iii)~~: to be material - \$5,000,000.

~~(iii)~~ for a Participant undertaking own account business, as described in the Procedures, which ASX Clear has determined:

~~(i)A~~: to be de minimis - \$0;

~~B(ii)~~: not to be de minimis or material - \$2,500,000;

~~C(iii)~~: to be material - \$5,000,000.

~~(iv)~~ for a Participant undertaking non-ASX client activity, as described in the Procedures, which ASX Clear has determined:

~~(i)A~~: to be de minimis - \$0;

~~B(ii)~~: not to be de minimis or material - \$2,500,000;

~~C(iii)~~: to be material - \$5,000,000.

(2) For the purpose of Rules S1.2.1 ~~(1)(b)(ii), (iii) and (iv)(2)(b), (c) and (d)~~:

(a) the amounts under those Rules will not apply to Participants determined by ASX Clear to be inactive;

(b) the ~~amount of Core Capital required~~ Core Requirement in respect of a Participant under those Rules will be assessed quarterly by ASX Clear (or at such other time at ASX Clear's discretion);

(c) where, ~~the Participant's Liquid Capital Requirement is the Core Requirement (or becomes the Core Requirement as a result of an assessment referred to in paragraph (b) above) and,~~ as a result of an assessment referred to in paragraph (b) above, ASX Clear determines ~~that additional Core Capital is required~~ an increase in the Core Requirement in respect of a Participant under those Rules, the Participant will have until the date specified in the notice provided to the Participant of the ~~additional Core Capital required~~ increase in the Core Requirement to ensure that its ~~Core Liquid Capital~~ Core Liquid Capital complies with such ~~additional requirement~~ increase. Subject to paragraph (d) below, ASX Clear will give not less than 6 months' notice of such ~~additional requirement~~ increase.

(d) in the event a Participant fails to lodge, in accordance with Rule S1.2.10(2), a return relevant to the assessment referred to in paragraph (b) above, ASX Clear may give less than 6 months' notice of any ~~additional Core Capital required~~ increase in the Core Requirement.

(3) For the purpose of making a determination on materiality pursuant to Rule S1.2.1 ~~(1)(b)(iii)(C)(2)(c)(iii) and Rule S1.2.1 (1)(b)(iv)(C)(2)(d)(iii)~~, ASX Clear may rely on any self-declaration of materiality provided by the Participant.

#### **S1.2.2 Notifying ASX Clear**

(1) A Participant must notify ASX Clear immediately if its:

- ~~(a) Core Capital is at any time less than the minimum amount required by Rule S1.2.1(1)(b); or~~
  - ~~(b) Liquid Capital divided by its ~~Total Risk Requirement~~ Liquid Capital Requirement is equal to or falls below 1.2.~~
- (2) A Participant must provide ASX Clear with a return in the form prescribed by ASX Clear disclosing the amount of its Liquid Margin:
- (a) no later than one Business Day after notifying ASX Clear under Rule S1.2.2(1); and
  - (b) from then on, either:
    - (i) weekly, for so long as the amount referred to in Rule S1.2.2(1)~~(b)~~ is equal to or less than 1.2 but greater than 1.1; and
    - (ii) daily, for so long as the amount referred to in Rule S1.2.2(1)~~(b)~~ is 1.1 or less.

...

#### **S1.2.4 Approved Subordinated Debt**

- (1) A Participant entering into a subordination arrangement may only include an amount owing under such an arrangement in its Liquid Capital if:
- (a) the subordination arrangement has the prior approval of ASX Clear under Rules S1.2.4(2) and (3); and
  - (b) the amount is notified to and approved by ASX Clear prior to being drawn down under the subordination arrangement ~~and complies with Rule S1.2.4(4) where relevant.~~
- (2) ASX Clear will not approve a subordination arrangement unless in the opinion of ASX Clear:
- (a) subject to Rule S1.2.4(6), the amount owing to the lender under the subordination arrangement will not be repaid until all other debts which the Participant owes to any other persons are repaid in full; and
  - (b) the obligation to pay any amount owing under the subordination arrangement is suspended if Rule S1.2.1(1) is no longer complied with.
- (3) ASX Clear will not approve a subordination arrangement unless the Participant has executed an Approved Subordinated Loan Deed in respect of the subordination arrangement.
- (4) [Deleted]
- (5) A Participant must comply with the terms of the Approved Subordinated Loan Deed and any associated agreement to which it, ASX Clear, and the lender are parties and must ensure the lender's compliance with these documents.
- (6) Prior to its Bankruptcy, a Participant may repay an amount owing under an approved subordination arrangement only with the prior approval of ASX Clear.

(7) ASX Clear will not withhold its approval under Rule S1.2.4(6) if, in the opinion of ASX Clear, the Participant's Liquid Capital divided by its ~~Total Risk Requirement~~ Liquid Capital Requirement is capable of continuing to be greater than 1.2 on repayment.

(8) If a Participant were to experience an increase in its Total Risk Requirement which would cause it not to hold sufficient Liquid Capital under Rule S1.2.1(1), then ASX Clear may give approval for the Participant to include in its Liquid Capital a higher amount of Approved Subordinated Debt than the limit specified in the Procedures commencing on the date that the Participant first does not hold sufficient Liquid Capital. This approval will be subject to such conditions and limitations as ASX Clear may specify.

### **S1.2.5 Redeemable Preference Shares**

(1) A Participant must not redeem any redeemable Preference Shares issued by it in whole or in part without the prior approval of ASX Clear.

(2) ASX Clear will not withhold its approval under Rule S1.2.5(1) if in the opinion of ASX Clear the Participant's Liquid Capital divided by its ~~Total Risk Requirement~~ Liquid Capital Requirement is capable of continuing to be greater than 1.2 on redemption.

...

## ASX CLEAR OPERATING RULES PROCEDURES

...

### SCHEDULES TO ASX CLEAR OPERATING RULES

#### PROCEDURE S1.1.1 DEFINITIONS AND INTERPRETATION

For the purposes of part (c) of the definition of Liquid Capital, the amount of Approved Subordinated Debt that can be included in calculating Liquid Capital is limited to an amount that is equivalent to the amount of Core Capital held by the Participant in excess of \$5,000,000.

#### PROCEDURE S1.2.1 ~~CORE CAPITAL, LIQUID CAPITAL AND TOTAL RISK~~ LIQUID CAPITAL REQUIREMENT

1. For the purposes of Rule S1.2.1 ~~(1)(b)(ii)~~ (2)(b):

- (a) client written options clearing is activity undertaken by a Participant which involves clearing of a written Options Market Contract registered in a Client Account of the Participant;
- (b) specific Cover is lodged for a written Call Option if, in accordance with paragraph 2.2.1(iii) of Annexure 1 to the Procedures, the outcome of such lodgement is that ASX Clear does not call margins in respect of such Call Option.

2. For the purposes of Rule S1.2.1 ~~(1)(b)(iii)~~ (2)(c), own account business is activity undertaken by a Participant which involves:

- (a) dealing in, or Underwriting, a financial product on its own behalf; or
  - (b) dealing in a financial product on behalf of a Related Body Corporate where the Participant has funded such dealing.
3. For the purposes of Rule S1.2.1 ~~(+)(b)(iv)(2)(d)~~, non-ASX client activity is activity undertaken by a Participant which involves:
- (a) dealing in a financial product on behalf of a client, where the transaction or contract under such dealing is not cleared by ASX Clear or ASX Clear (Futures) Pty Limited;
  - (b) issuing a financial product to a client;
  - (c) providing a credit facility to a client; or
  - (d) disposing of a financial product to a client as part of a securities lending service.
4. ASX Clear may, at its discretion, exclude activities which fall within the descriptions of own account business or non-ASX client activity in paragraphs (2) or (3) above, from its assessment of own account business or non-ASX client activity undertaken by a Participant for the purposes of Rules S1.2.1 ~~(+)(b)(iii)(2)(c)~~ or S1.2.1 ~~(+)(b)(iv)(2)(d)~~.
5. Where activity undertaken by a Participant falls within both the descriptions of own account business and non-ASX client activity in paragraphs (2) and (3) above, ASX Clear will choose, at its discretion, whether such activity should be included in its assessment of:
- (a) own account business undertaken by the Participant for the purposes of Rule S1.2.1 ~~(+)(b)(iii)(2)(c)~~; or
  - (b) non-ASX client activity undertaken by the Participant for the purposes of Rule S1.2.1 ~~(+)(b)(iv)(2)(d)~~,
- so that the same activity is not assessed under both of those Rules.

## Appendix B

### ASX CLEAR OPERATING RULES

#### SCHEDULE 1 RISK BASED CAPITAL REQUIREMENTS

...

S1.1

##### **S1.1.1 Definitions and Interpretation**

...

“**Excluded Asset**” means:

...

- (e) a deposit with or loan to a person other than:
  - (i) a deposit or loan with an Approved Deposit Taking Institution;
  - (ii) a deposit or loan to the extent the balance is secured by collateral which is Liquid, evidenced in writing and valued at the mark to market value or at another value approved by ASX Clear; or
  - (iii) a deposit of funds as a margin or deposit with a person licensed to trade and/or clear Futures or Options to the extent that those funds relate to an open position;
  - (iv) funds deposited with ASX Clear as margin or as Excess Cash; or
  - (v) funds deposited with ASX Clear (Futures) Pty Limited as margin or excess deposits;

...

- (h) a debt which was reported or created more than ~~3031~~ days previously other than a debt which is secured by collateral which is Liquid, evidenced in writing and valued at the mark to market value or at another value approved by ASX Clear;

...

“**Government Debt Instrument**” means any form of government financial instrument including a bond, treasury note or other short term instrument, and a Debt Derivative of any of those instruments where:

- (a) it is issued by, fully guaranteed by, or fully collateralised by a Debt Instrument issued by:
  - (i) the Australian Commonwealth or, sState (including tTerritories) governments; or

...

“Qualifying Debt Instruments” means Debt Instruments that are:

- (a) rated investment grade by at least two of the credit rating agencies ~~recognised by the Australian Prudential Regulation Authority and~~ specified in Table 1.5, Annexure 5;
- (b) rated investment grade by one credit rating agency ~~recognised by the Australian Prudential Regulation Authority and~~ specified in Table 1.5, Annexure 5, and the issuer has its ordinary shares included in a Recognised Market Index;
- (c) ~~unrated but the Issuer of the Debt Instrument has its ordinary shares included in a Recognised Market Index and, in accordance with a policy agreed between ASX Clear and the Participant, the Debt Instruments are reasonably deemed by the Participant to be of comparable investment quality to one or more of the categories of Qualifying Debt Instrument as described in this definition.~~~~[Deleted]~~;

...

- (f) issued by or ~~fully collateralised~~ collateralised by claims on, an international agency or regional development bank including the International Monetary Fund, the International Bank for Reconstruction and Development, the Bank for International Settlements and the Asian Development Bank;

...

- (i) issued by or guaranteed by OECD country, ~~s~~State and regional governments and OECD public sector entities.

...

“Related/Associated Person Balance” is an amount owing to the Participant by a person who is a Related/Associated Person of the Participant excluding an amount owing as a result of:

...

- (b) the deposit of funds as a margin or deposit with a person licensed to trade and/or clear Futures or Options to the extent that those funds relate to an open position; or

...

- (d) brokerage or similar amounts owing that were reported or created less than ~~30~~31 days previously and which arose as a result of a third party clearing arrangement entered in to with another Participant,

...

## ANNEXURE 2 LARGE EXPOSURE RISK REQUIREMENT

### 2. ISSUER LARGE EXPOSURE RISK REQUIREMENT

...

#### 2.2 Overview

...

- (c) The methods referred to in clause 2.2(b) are summarised in the Tables below:

**Table 2**

	Equity Method				Risk amount
	Compared to Liquid Capital		Compared to Issue		
<b>Equity Net Position from transaction date</b>	If <del>E</del> equity <del>N</del> et <del>P</del> osition is $\leq 25\%$ , is a risk amount required?	If <del>E</del> equity <del>N</del> et <del>P</del> osition is $> 25\%$ , is a risk amount required?	If <del>E</del> equity <del>N</del> et <del>P</del> osition is $\leq 5\%$ , is a risk amount required?	If <del>E</del> equity <del>N</del> et <del>P</del> osition is $> 5\%$ , is a risk amount required?	Take the greater of <b>(a)</b> and <b>(b)</b>
	No	Yes <b>(a)</b>	No	Yes <b>(b)</b>	

**Table 3**

	Debt Method				Risk amount
	Compared to Liquid Capital		Compared to Issue		
<b>Debt Net Position from transaction date</b>	If <del>D</del> ebt <del>N</del> et <del>P</del> osition is $\leq 25\%$ , is a risk amount required?	If <del>D</del> ebt <del>N</del> et <del>P</del> osition is $> 25\%$ , is a risk amount required?	If <del>D</del> ebt <del>N</del> et <del>P</del> osition is $\leq 10\%$ , is a risk amount required?	If <del>D</del> ebt <del>N</del> et <del>P</del> osition is $> 10\%$ , is a risk amount required?	Take the greater of <b>(a)</b> and <b>(b)</b>
	No	Yes <b>(a)</b>	No	Yes <b>(b)</b>	



Table 4

	Equity and Debt Method		Risk amount
	Compared to Liquid Capital only		
Equity Net Position and Debt Net Position from transaction date	If <u>E</u> quity <u>N</u> et <u>P</u> osition and <u>D</u> ebt <u>N</u> et <u>P</u> osition is $\leq 25\%$ , is a risk amount required?  No	If <u>E</u> quity <u>N</u> et <u>P</u> osition and <u>D</u> ebt <u>N</u> et <u>P</u> osition is $> 25\%$ , is a risk amount required?  Yes (c), but only if a zero amount has been calculated in Table 2 or Table 3	Take (c)

...

## ANNEXURE 3 POSITION RISK REQUIREMENT

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### 9. CALCULATION OF EQUITY NET POSITIONS

The Equity Net Positions are either the long or short positions resulting from offsetting equity positions and Equity Equivalents calculated in the following way:

...

### 17. CALCULATION OF DEBT NET POSITIONS

The Debt Net Position is either the long or short position resulting from offsetting positions in Debt Instruments and Debt Derivatives in the following way:

...

# ANNEXURE 5 TABLES

## 1. POSITION RISK

...

Table 1.5

Rated Investment Grades		
	Minimum Ratings	
	<u>Securities Long Term</u>	<u>Money Market Obligations Short Term</u>
<b>For all issuers</b>		
Moody's Investors Services	Baa3	P-3
<u>Standard &amp; Poors Corporation S&amp;P Global Ratings</u>	BBB-	A-3
Fitch <u>IBCA Ltd Ratings</u>	BBB-	F-3
<b>For all banks, building societies and subsidiaries of banks (not otherwise eligible as Qualifying Debt Instruments)</b>		
Thomson Financial Bank Watch	BBB-	TBW-3
<b>For Canadian Issuers</b>		
Canadian Bond Rating Service	B+low	A-3
Dominion Bond Rating Service	BBB low	R-2
<b>For Japanese Issuers</b>		
Japan Credit Rating Agency Ltd	BBB-	J-2
Nippon Investor Services Inc	BBB-	a-3
The Japan Bond Research Institute	BBB-	A-2
Mikuni & Co	BBB	M-3
Fitch Investors Services Inc	BBB-	F-3
<b>For United States Issuers</b>		
Duff & Phelps Inc	BBB-	3
Fitch Investors Services Inc	BBB-	F-3

Table 1.6

Recognised Market Indexes			
Country	Index	Country	Index
Australia	S&P/ASX 200	Netherlands	<del>EOE 25</del> AEX
Austria	ATX	<del>Singapore</del>	<del>Straits Times Index</del>
Belgium	BEL 20	Spain	IBEX 35
Canada	<del>TSE 35</del> S&P/TSX 60	Sweden	OMXS30
France	CAC 40	Switzerland	SMI
Germany	DAX	UK	FTSE 100, FTSE mid-250
Hong Kong	Hang Seng	USA	S&P 500
Italy	<del>MIB 30</del> FTSE MIB		
Japan	Nikkei 225		

...

## 2. COUNTERPARTY RISK

Table 2.1

Risk Weightings	
	Counterparty
Central <del>b</del> Bank	0%
Central and <del>s</del> State <del>g</del> Government	10%
Banks	20%
Local <del>g</del> Governments	
Approved Deposit Taking Institutions (other than <del>b</del> Banks)	
<del>ASX Clear Participants that comply with the</del> Risk Based Capital Requirements <del>— ASX Clear Participants</del> <del>— ASX Market Participants</del>	
<del>Market participants that comply with the Risk-Based Capital Requirements as defined in the ASIC Market Integrity Rules (Securities Markets - Capital) 2017 (as amended from time to time)</del>	
Approved Institutions	50%
<del>ASX Clear Participants that comply with the</del> NTA Requirements <del>— ASX Clear Participants</del> <del>— ASX Market Participants</del> <del>Participants of ASX Clear (Futures) Pty Limited that are not banks</del> <del>Market participants that comply with the NTA Requirements as defined in the ASIC Market Integrity Rules (Futures Markets – Capital) 2017 (as amended from time to time).</del>	
Other	100%

In Table 2.1, references to ~~c~~Central ~~b~~Banks and ~~g~~Governments are references to OECD ~~c~~Central ~~b~~Banks and ~~g~~Governments. Non-OECD ~~c~~Central ~~b~~Banks and ~~g~~Governments are within the 'other' category of risk weighting.

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3. OTHER

Table 3.1

Recognised Non-European Regulator	
Country	Regulator
<del>Australia</del>	<del>Australian Securities Exchange Limited</del>
Canada	<del>Investment Industry Regulatory Organization of Canada</del> <del>Alberta Stock Exchange</del> <del>Montreal Exchange</del> <del>Toronto Stock Exchange</del> <del>Vancouver Stock Exchange</del> <del>Investment Dealers Association of Canada</del>
Hong Kong	Hong Kong Monetary Authority Hong Kong Securities and Futures Commission
Japan	Financial Services Agency
<del>New Zealand</del>	<del>New Zealand Stock Exchange</del>
Singapore	Monetary Authority of Singapore <del>Singapore Exchange Securities Trading Limited*</del> <del>The Central Depository (Pte) Limited*</del> <del>Singapore Exchange Derivatives Trading Limited*</del> <del>Singapore Exchange Derivatives Clearing Limited*</del> <del>* Regulatory functions for SGX group undertaken by Singapore Exchange Regulation Pte Ltd (SGX RegCo)</del> <del>Stock Exchange of Singapore</del>
South Africa	<del>Bond Exchange of South Africa</del> Johannesburg Stock Exchange <del>South African Futures Exchange</del>
United States	Securities and Exchange Commission Commodity <del>and</del> Futures Trading Commission <del>Financial and Industry Regulatory Authority</del>

Table 3.2

Recognised European Regulator	
Country	Regulator
Austria	<del>Bundesministerium für Finanzen (Federal Ministry of Finance, Banking, Stock Exchange and Capital Market Supervision)</del> <del>Bundes-Wertpapieraufsicht (Austrian Securities Authority)</del> <u>Financial Market Authority</u>
Belgium	<del>Commission Bancaire et Financière</del> <u>Financial Services and Markets Authority</u>
Finland	<del>Financial Supervision</del> <u>Supervisory Authority</u>
France	<del>Autorité des marchés financiers (AMF)</del> <del>Comité des établissements de crédit et des entreprises d'investissements</del>
Germany	Bundesanstalt für Finanzdienstleistungsaufsicht (Federal Financial Supervisory Authority)
Greece	<del>The Bank of Greece</del> The <u>Hellenic</u> Capital Market Commission
Iceland	Central Bank of Iceland
Ireland	Central Bank of Ireland
Italy	Banca d'Italia <del>Commissione Nazionale per le Società e la Borsa (CONSOB)</del>
Liechtenstein	<del>Dienststelle für Bankenaufsicht</del> <u>Financial Market Authority</u>
Luxembourg	<del>Commission de Surveillance du Secteur Financier</del> <del>Institute Monétaire Luxembourgeois</del>
Netherlands	<del>Autoriteit Financiële Markten (AFM) (The Netherlands Authority for the Financial Markets)</del> <del>Securities Board of the Netherlands</del>
Norway	<del>Finanstilsynet (Financial Supervisory Authority of Norway)</del> <del>Kredittilsynet (the Banking, Insurance and Securities Commission of Norway)</del>
Portugal	Banco de Portugal (Central Bank)
Spain	<del>Banco de Espana (for Banks and Credit Institutions)</del> <u>Comision Nacional del Mercado de Valores (National Securities Market Commission)</u>

<u>Switzerland</u>	<u>Swiss Financial Market Supervisory Authority</u>
United Kingdom	<u>Prudential Regulation Authority (a division of the Bank of England)</u> <del>Financial Services Authority</del>