ASX Clear (Futures) Dynamic Default Fund Framework

Public Consultation

21 July 2025

Invitation to comment

ASX is seeking submissions on the issues canvassed in this paper by 1/09/2025. Submissions should be sent to:

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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 these matters.

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1. Introduction

ASX Clear Futures (ASXCLF) is consulting on the "Dynamic Default Fund Framework" (or Framework) to replace the current default fund arrangement.

The purpose of this consultation is to obtain feedback on the proposed Dynamic Default Fund Framework, the amendments to the ASXCLF Operating Rules and Procedures and the ASX Recovery Rules intended to support the Framework, and the planned processes to implement the Framework.

The proposed rule and procedure amendments to implement this Framework are available below:

- ASX CLEAR (FUTURES) OPERATING RULES and PROCEDURES
- ASX RECOVERY RULES

Section 2 and 3 of this consultation paper provide an executive summary of the proposed Dynamic Default Fund Framework, and the background explaining the drivers for the Framework. Section 4 sets out details on the key components of the Dynamic Default Fund Framework. Section 5 provides further details on the key implementation processes of the Framework. In sections 4 and 5, specific consultation questions can be found. These questions reflect the areas of interest on which ASXCLF is keen to obtain feedback. However, ASXCLF also welcomes feedback on the Framework and its implementation outside of these specific areas.

Responses to this consultation paper should be submitted to ASX by 1 September 2025.

ASX has consulted with the ASXCLF Risk Consultative Committee (RCC) and bilaterally with the RCC's members on the Framework. However, as this is the formal consultation for the proposed Dynamic Default Fund Framework, you are encouraged to submit your response, even if discussions have been conducted during previous meetings.

2. Executive Summary

Under ASXCLF's proposed "Dynamic Default Fund Framework", the total default fund will be dynamically resized every month based on the average CST pre-AIMs Cover-2 exposure (i.e., net of relevant initial margins but excluding AIMs) over the lookback period of the previous 3 months and the 3-month period ending 9 months ago, with a 10% buffer applied to only the exposures of the previous 3 months. A cap and a floor will be set at $1.3B and $650M respectively.

ASX will contribute $450M to the total default fund (unchanged from the current arrangement) and commit a tranche ahead of the default fund contribution of Clearing Participants (CPs) sized at 20% of the total default fund. The CPs' contribution consists of two tranches, namely the Futures tranche and the OTC tranche, and the order of application depends on whether the defaulter is a Futures CP or an OTC CP. The rest of ASX's contribution lies after the CPs' contribution. (See Annex A for a diagrammatic representation)

Due to the change from the current fixed default fund to a dynamic default fund, the recovery assessments and the default fund replenishment rules also need to be amended.

3. Background

ASXCLF and its CPs currently contribute to a fixed $650M default fund (contribution of $450M and $200M respectively) to satisfy Cover-2 compliance. This is the mutualised financial resources contributed by ASX and CPs to cover the default of the two largest CPs under extreme but plausible market risk events. The credit stress test (CST), consisting of ASXCLF's set of extreme but plausible market scenarios, is used to test Cover-2 compliance daily. Additional initial margins (also known as AIMs) can also be called from individual CPs to meet Cover-2 requirements.

However, the fixed default fund is not reactive to the changes of the cleared positions and size of CST pre-AIMs Cover-2 exposures within its clearing environment. The fixed structure also puts ASXCLF as an outlier by global CCP industry standards. Since 2023, ASXCLF's current fixed default fund has relied increasingly on AIMs calls to manage Cover-2 compliance.

The proposed Dynamic Default Fund Framework is designed to respond to the changes in CST pre-AIMs Cover-2 exposure. It also better aligns ASXCLF with practices observed amongst peer CCPs. The new framework is expected to result in a decreased reliance on AIMs as a tool to meet Cover-2 requirements. For CPs, this results in a more stable funding requirement for financial resources to meet Cover-2 compliance.

Initial consultations both bilaterally with CPs and through the ASXCLF RCC were conducted in Q4 2024 and Q1 2025. Feedback from these initial consultations has been incorporated into the Framework design.

4. Proposed Dynamic Default Fund Framework

The key components of the proposed ASXCLF Dynamic Default Fund Framework are set out below:

- ASX commitment / Skin-In-The-Game
- Default fund sizing methodology
- Default fund resizing frequency
- Default fund allocation methodology
- Default waterfall
- Stress Test Exposure Limit (STEL) and Additional Initial Margins (AIMs) Approach
- Recovery assessments
- Default fund replenishment

At the end of each of the following subsections, there are consultation questions which correspond to each component reflecting the specific areas of interest on which ASXCLF is keen to obtain feedback.

4.1. ASX Commitment / Skin-In-The-Game

Under the proposed Dynamic Default Fund Framework, ASX continues its commitment to maintain ASXCLF as a robust and resilient clearing venue by:

- Keeping ASX's total commitment to the total default fund requirement unchanged at $450M to provide a meaningful Skin-In-The-Game, or SITG.
- Providing a significant portion of ASX's commitment equal to 20% of the size of the total aggregate default fund (subject to a cap of $450M) ahead of CPs' commitment to the default fund. (Also see default fund cap in section 4.2)

ASX is committed to providing sufficient financial resources for default events under extreme but plausible market stress scenarios. Accordingly, ASX continues its commitment of $450M to the total default fund under the proposed Framework.

Furthermore, ASX will increase its first tranche in the default fund so that it is 20% of the size of the total aggregate default fund subject to a cap of $450M. Currently, ASX's $120M commitment as the first tranche of the default waterfall represents 18.5% of the total default fund.

When benchmarked against ASXCLF's peer CCPs, a wide range of SITG amongst the CCPs is observed. The SITGs range from below 1% to 20%, but with most of the peer CCPs' SITGs sized below 10%. Under this proposed framework, ASX's total SITG of at least 20% is at the top end of the range amongst peer CCPs.

Question 4.1.1: Do you have any feedback or comments on ASX's commitment to ASXCLF's default fund under the proposed framework?

4.2. Default Fund Sizing Methodology

The proposed Dynamic Default Fund Framework's default fund sizing methodology is summarised below:

- Look-back period (referred to as the Calculation Period in the draft rules): The Framework uses two lookback periods. The first look-back period is the most recent 3-calendar-month period, and the second look-back period is the 3-calendar-month period ending 9 months ago.
- Buffer: A buffer of 10% is used in the proposed Framework. Refer to the bullet point below on core methodology.
- Core methodology: Credit Stress Test (CST) pre-AIMs Cover-2 exposure is used to size the default fund. The average CST pre-AIMs Cover-2 exposure (i.e., net of relevant collateral but excluding AIMs) over the first look-back period is calculated, and the result is increased by applying the 10% buffer. The average CST pre-AIMs Cover-2 exposure over the second look-back period is calculated, without the buffer applied. The maximum of the two averages is the size of the default fund.
- Floor: The minimum default fund is set at the current $650M.

- Cap: A cap on the total default fund is set at $1.3B. This cap will be reviewed annually. A threshold of 95% (or $1.235B) is also set to trigger an off-cycle review of the cap.

The proposed Framework's core methodology of CST pre-AIMs Cover-2 exposure aligns with the common practice amongst peer CCPs. It is also an appropriate methodology, as the CST is used daily to test the sufficiency of the total default fund.

Amongst peer CCPs, three statistical approaches are observed.

- Average CST pre-AIMs Cover-2 exposure over the look-back period.
- Maximum CST pre-AIMs Cover-2 exposure over the look-back period.
- Maximum of two values, firstly the average CST pre-AIMs Cover-2 exposure over the look-back period, and secondly the last observed CST pre-AIMs Cover-2 exposure.

ASXCLF has selected the average CST pre-AIMs Cover-2 exposure approach after weighing the impact on different CP cohorts' default fund contribution increases, AIMs decreases, and the resulting costs of capital and funding.

The inclusion of a 10% buffer is to account for future uncertainty given that CST pre-AIMs Cover-2 exposure is calculated based on historical data. The use of a buffer is also common amongst peer CCPs. When conducting peer comparisons, it is observed that most peer CCPs' buffers are set at 10%. The new framework sets the default fund buffer at 10%, in line with the common practice amongst peer CCPs.

The look-back period described in the proposed Framework consists of two sub-periods. The most recent 3 calendar months aims to capture the most recent trading and clearing history on ASXCLF. The 3 calendar months ending 9 months ago aims to capture the potential seasonality of trading and clearing at the CCP.

With this proposed Dynamic Default Fund Framework, the total default fund changes periodically (for details on frequency of total default fund resize, see section 4.3). A floor of the default fund is introduced as a mechanism to counteract pro-cyclicality. The floor is set at the current default fund size which results in the total default fund remaining unchanged or increasing.

Based on some CPs' initial feedback, a cap on the total default fund has been introduced. These CPs stated that a cap on the default fund is important for their internal credit management and approval. The proposed Framework, including the default fund sizing methodology (including the default fund cap) and structure, will be reviewed annually as part of the annual default fund review cycle. A threshold of 95% of the cap (i.e., $1,235M) is also set such that when CST pre-AIMs Cover-2 exposure exceeds the threshold, review of the default fund cap will automatically be conducted. The purpose of setting the threshold to trigger off-cycle review of the cap in the proposed Framework is to provide transparency to CPs on when ASXCLF would review, recommend and approve any changes to the cap. Visibility will be provided to CPs and RCC.

Question 4.2.1: Please provide your feedback or comments on the proposed methodology for calculating the total default fund size.

Question 4.2.2: Do you have any feedback or comments on the proposed selection of the look-back period under the proposed Framework?

Question 4.2.3: Do you have any feedback or comments on the approach to sizing the default fund as the average CST pre-AIMs Cover-2 exposure over the lookback period?

Question 4.2.4: What is your view on setting an explicit cap on the total default fund size and the associated review processes?

4.3. Default Fund Resizing Frequency

The proposed Dynamic Default Fund Framework includes a default fund resize frequency and timelines summarised below:

- Monthly resize (and re-allocation) based on a month-end snapshot. On the first business day of the month, ASXCLF calculates the total default fund size according to the methodology described in section 4.2.
- CP commitment notice (to notify each CP of the change to their default fund commitment) sent on business day 5. See section 4.4 below on how the total default fund is allocated to each CP.
- CPs are required to pay any increase in default fund commitment within 2 business days after receiving the CP commitment notice; CPs can then request any excess be returned a day after.

- ASXCLF will have the option to resize the default fund intra-monthly cycle[1].

The proposed Framework's monthly resize frequency is aligned to that observed with peer CCPs. Also, most of ASXCLF's peer CCPs have incorporated the option of resizing the default fund out of cycle.

Question 4.3.1: What is your view on the proposed monthly resize of the total default fund at every month-end under the proposed Framework?

4.4. Default Fund Allocation Methodology

The proposed Dynamic Default Fund Framework includes the following key features when it comes to allocating the amount of the total CP default fund commitments between CPs:

- Each CP's minimum (fixed) default fund commitment: The minimum (or fixed) default fund commitment for each CP will be unchanged.
  - For a Futures CP, the fixed default fund commitment (Futures fixed default fund commitment) is set at $2M.
  - For an OTC CP, the fixed default fund commitment (OTC fixed default fund commitment) is set at $5M.
  - For a CP with Futures and OTC activities, the fixed default fund commitment is the sum of the Futures fixed default fund commitment and the OTC fixed default fund commitment, which is $7M.
- Total CPs' fixed and variable default fund commitments:
  - Total CPs' fixed default fund commitments is the sum of each CP's fixed commitments
  - Total CPs' variable default fund commitments = Total default fund size[2] – Total CPs' fixed default fund commitments – ASXCLF's $450M commitment
- Allocation of Total CPs' variable default fund commitments to each CP: Using each CP's relative average Credit Stress Test (CST) Cover-1 pre-AIMs exposure over the most recent 3-calendar-month period (also known as the Allocation Period in the draft rules).
- Each CP's default fund commitment: For each CP, the default fund commitment is the sum of the CP's fixed default fund commitment, and the allocated CP's variable default fund commitment.
- Each CP's Futures and OTC default fund commitments: Each CP's default fund commitment is split into a Futures default fund commitment and an OTC default fund commitment. This split is relevant to the default waterfall (see section 4.5).
  - For a CP with only Futures activities, its default fund commitment (fixed plus variable) is its Futures default fund commitment. Its OTC default fund commitment is zero.
  - For a CP with only OTC activities, its default fund commitment (fixed plus variable) is its OTC default fund commitment. Its Futures default fund commitment is zero.
  - For a CP with both Futures and OTC activities:
    - The CP's variable default fund commitment is split into its Futures variable default fund commitment and OTC variable default fund commitment.
    - The CP's Futures and OTC variable default fund commitments are calculated relative to the CP's average Futures initial margin size and average OTC initial margin size across the same lookback period used for sizing the total default fund, i.e., the Calculation Period in the draft rules (see section 4.2 for lookback period definition).
    - The CP's Futures default fund commitment is the sum of its Futures fixed default fund commitment ($2M) and its Futures variable default fund commitment.
    - The CP's OTC default fund commitment is the sum of its OTC fixed default fund commitment ($5M) and its OTC variable default fund commitment.

The proposed allocation method using CST Cover-1 Pre-AIMs exposure is considered better practice compared to other common methods using initial margins. The driver for using this allocation method is that CPs with higher tail risk clearing positions should

[1] During any intra-month resize of the default fund, the methodology for calculating the total default fund and each CP's allocated default fund will follow sections 4.1, 4.2, and 4.4. However, the lookback periods for both default fund calculation and allocation will be appropriately selected by ASXCLF.
[2] Total default fund size is determined according to the methodology described in section 4.2.

pay higher default fund commitments. This allocation method is also used by some of ASXCLF's CCP peers. Adopting this method, CPs with higher CST exposures will see a proportional increase in default fund commitments.

The current total CPs' Futures and OTC default fund commitments are equal ($100M each). The proposed Framework would result in the size of the total CPs' Futures default fund commitments and total CPs' OTC default fund commitments being more proportional to the risks of cleared Futures and OTC positions at ASXCLF. This is due to the use of the Credit Stress Test (CST) to allocate the default fund to each CP, and the use of relative size of initial margins to determine each CP's Futures and OTC variable default fund commitments.

During the consultation period, CPs can request that ASXCLF provide an indicative total default fund size and the CP's default fund allocation based on the proposed Framework and recent historical data.

Question 4.4.1: Is the proposed approach of using Credit Stress Tests (CST) pre-AIMs Cover-1 exposure to allocate the default fund to each CP a fair approach? If not, what alternatives would you suggest and why?

Question 4.4.2: Is the proposed approach of using the average CST pre-AIMs Cover-1 exposure over the most recent 3-calander-month period to allocate default fund to the CPs a fair approach? If not, what alternatives would you suggest and why?

Question 4.4.3: Please provide feedback or comments on the processes and timelines for ASXCLF notifying CPs of the default fund commitments, and for CPs meeting their respective default fund commitments.

4.5. Default Waterfall

The proposed Dynamic Default Fund Framework's default waterfall is structured as follows:

- If a Futures CP defaults:
  - Defaulter's initial margin, AIMs and default fund commitment
  - ASX's first tranche commitment (= 20% of the total default fund)
  - Other CPs' Futures default fund commitments[3]
  - Other CPs' OTC default fund commitments[4]
  - ASX's second tranche commitment (remainder of $450M)
- If an OTC CP defaults, the order of 3rd and 4th sub bullet points above reverses.
- If a CP with activities in both Futures and OTC defaults, the loss is allocated pro-rata.

The proposed Framework is a simplification of the current default waterfall, where the ASX second tranche previously situated between CPs' Futures and CP's OTC commitments has been removed. It also aligns the default waterfall with practices observed with peer CCPs.

Question 4.5.1: Please provide feedback or comments on the proposed default waterfall structure.

4.6. Stress Test Exposure Limit and Additional Initial Margins Approach

With the proposed Dynamic Default Fund Framework, ASXCLF would retain the current Stress Test Exposure Limits (STELs) practice, whereby an appropriate STEL is set for each CP.

The methodology for determining STEL for each CP remains unchanged; the inputs to the methodology include the total default fund size, the CP's volatility buffer, and appropriate CP specific credit risk factors. The maximum STEL for a CP is 50% of total default fund. Under the Framework, STEL is calculated using the total default fund size determined by the Framework.

[3] For the determination of each CP's Futures default fund commitment, see section 4.4.
[4] For the determination of each CP's OTC default fund commitment, see section 4.4.

Additional initial margins (AIMs) will be called when the CP's CST pre-AIMs Cover-1 exposure is greater than its STEL.

The reason for retaining the existing approach to STEL and AIMs is to capture potential significant changes in CST Pre-AIMs Cover-2 exposures between default fund size resets, and for future scenarios where the default fund is at the default fund cap (see section 4.2).

With the proposed Dynamic Default Fund Framework, where the total default fund is sized using the most recent historical CST exposures, CPs' STEL (derived from the total default fund size) will increase in size. This in turn will result in a decrease of AIMs call frequency and AIMs amounts.

Question 4.6.1: Do you support the considerations given for retaining STEL and AIMs under the Dynamic Default Fund Framework?

4.7. Recovery Assessments

ASXCLF's current recovery assessments are sized at 1 and 3 times the CP default fund commitment in the event 1 CP defaults, or 2 or more CPs default respectively. This practice nominally appears to align with peer CCPs. However, if the recovery assessments are calculated according to this practice, the amount of recovery assessments available to ASXCLF (under the current default fund arrangement and the proposed Dynamic Default Fund Framework) is significantly less than that available at its peer CCPs.

Under the proposed Framework, ASX's total default fund contribution ranges from 34% to 69% (see sections 4.1 and 4.2 on ASX's default fund contribution and default fund sizing), which means the recovery assessments available for 1 CP default range from 66% to 34% of the total default fund. This relatively high ASXCLF SITG sets the CCP apart from its peer CCPs, and results in ASXCLF having a comparatively small amount of recovery assessments when compared to its peers.

To illustrate the difference between ASXCLF and a typical peer CCP (which we shall call CCP1), consider the following default event:

- A CP defaults on both ASXCLF and CCP1.
- CCP1 has contributed 5% SITG to its total default fund (note that most peer CCPs' SITGs are less than 5%).
- ASXCLF's default fund prior to the default event is $650M[5], and ASX's and CPs' contributions are $450M and $200M respectively).
- The defaulting CP contributes 10% of the total CPs' default fund contribution to CCP1 and to ASXCLF respectively.
- The respective default fund contributions at both CCPs are exhausted during the default management processes, and both CCPs depend on recovery assessments to manage the default.
- The recovery assessment is 1 times the default fund contribution of all other non-defaulting CPs for both CCP1 and ASXCLF.

For CCP1, the total CPs' default fund contribution is 100% - 5% = 95% of total default fund. The total CPs' default fund contribution by non-defaulting CPs is (100% - 10%) = 90% of the total CPs' default fund contribution. Hence, the total recovery assessment amount for this default event is 90% X 95% = 85.5% of the total default fund amount. So CCP1 has an additional amount equivalent to 85.5% of the total default fund, if the default fund is exhausted, to bear the cost of closing out the defaulting CP's positions at CCP1.

For ASXCLF under the new Dynamic Default Fund Framework, where the total default fund is $650m, the total CPs' default fund contribution is $200M. The defaulting CP's contribution is 10% X $200M = $20M. The total recovery assessment amount from surviving CPs is $200M - $20M = $180M. $180M is 27.7% of the total default fund of $650M. So ASXCLF has an additional amount equivalent to 27.7% of the total default fund, if the default fund is exhausted, to bear the cost of closing out the defaulting CP's positions at ASXCLF.

As this example illustrates, under this scenario, ASXCLF only has a third of the amount of recovery assessments relative to that of CCP1.

The risk of having insufficient recovery assessments is that it increases the likelihood of using additional recovery tools (such as VM gains haircutting). The impact of these additional recovery tools to individual CPs is less predictable.

To mitigate the risk of insufficient financial resources for recovery, the proposed amendments to the recovery assessments associated with ASXCLF's proposed Dynamic Default Fund Framework are as follows:

[5] See sections 4.1 and 4.2 for details on Dynamic Default Fund Framework's default fund floor.

- Total recovery assessment amount from all surviving CPs to be capped at 1 X total Default Fund (immediately before the default event) in the event 1 CP defaults.
- Total recovery assessment amount from all surviving CPs to be capped at 3 X total Default Fund (immediately before the default event) in the event that 2 or more CPs default.
- For each CP, the allocation of the recovery assessment is proportional to the CP's default fund commitment immediately before the default event.

Question 4.7.1: Due to ASX's high SITG, under ASXCLF's proposed Dynamic Default Fund Framework the recovery assessments will need to be adjusted. What is your view on the analysis presented and the adjustments proposed?

4.8. Default Fund Replenishment

Currently, ASXCLF and ASX Clear (ASXCL) have fixed default funds. The current default fund replenishment rules are a common set of rules that apply to both CCPs and assume the replenishment of fixed default funds. Given that the proposed Dynamic Default Fund Framework will only apply to ASXCLF, the replenishment rules for ASXCLF need to be amended to facilitate replenishment of a dynamic default fund. (Note that in the proposed implementation of the Dynamic Default Fund Framework for ASXCLF, ASXCL's default fund arrangements remain unchanged.)

The current replenishment rules are structured in 3 stages. To illustrate the 3 stages, consider the scenario where ASXCLF's entire existing fixed default fund is utilised during the default management process:

- Stage 1 is defined from the day of completion of the default management process (DMP Completion Date) to 21 business days after the DMP Completion Date[6]. In this stage, ASXCLF and CPs are each committed to contributing up to a fixed amount of $100M to bring the total default fund size to $200M.
- Stage 2 is defined as commencing 22 business days after the DMP Completion Date. In this stage, ASXCLF and CPs are each committed to contributing up to an additional fixed amount of $100M to bring the total default fund size to $400M.
- Stage 3 involves rescaling the default fund to the "regulatory required" size, which is currently $650M. However, the replenishment rules do not specify a definitive time frame, which gives ASX the option to determine the commencement of the third stage. In addition, ASXCLF is required to provide 45 calendar days advance notice to CPs when calling additional default fund to meet this rescaling.

Given that the current replenishment rules are designed to apply to both ASXCLF and ASXCL, wholesale changes to the rules would impact both CCPs.

In order to avoid impacting the current replenishment rules for ASXCL, and to ensure consistency with the proposed Dynamic Default Fund Framework for ASXCLF, the proposed amendments to the replenishment rules are as follows:

- Keep Stage 1 of the current replenishment rules unchanged for both ASXCL and ASXCLF.
- Keep Stage 2 of the current replenishment rules (and the associated timelines) largely unchanged for both ASXCL and ASXCLF subject to the removal of the middle tranche of ASXCLF capital in the default waterfall of this stage (consistent with the design of the proposed waterfall in the Dynamic Default Fund Framework). The Futures and OTC commitments are consolidated into one tranche so that juniorisation will not apply for the duration of stage 2.
- Amend the rules in Stage 3 only for ASXCLF, while leaving that for ASXCL unchanged
  - Remove the reference that requires ASXCLF to determine rescaling of the default fund based on a regulatory required size ($650M) and replace that with a requirement that the default fund size be calculated according to the Dynamic Default Fund Framework.
  - Remove the option for ASX to rescale the default fund provided ASX gives 45 calendar-day notice to CPs, and replace that with an affirmative action on ASXCLF to rescale the appropriate default fund size based on the Dynamic Default Fund Framework[7] 45 business days after the DMP Completion Date[8]. The resized default fund would need to be in place by close of business day 47 and the standard default waterfall in the Futures Rules would apply thereafter.

[6] These dates assume only a 1 CP default. In the event that two or more CPs defaulted within the 22 business day period following the DMP Completion Date, Stage 1 would end 21 business days after the DMP Completion Date of the last CP default and Stage 2 would commence 22 business days after the DMP Completion Date of the last CP default.
[7] During the rescaling of the default fund, the methodology for calculating the total default fund and each CP's allocated default fund will follow sections 4.1, 4.2, and 4.4. However, the lookback periods for both default fund calculation and allocation will be appropriately selected by ASXCLF.
[8] This date assumes only a 1 CP default. In the event that two or more CPs defaulted within the 22-business day period following the DMP Completion Date then the date would be 45 business days after the DMP Completion Date of the last CP default.

Under the proposed Dynamic Default Fund Framework, if the default fund requires replenishment, ASXCLF intends to provide each CP with an estimate of the CP's default fund commitment shortly after the completion of the last default management process[9]. However, ASXCLF does not propose to include the provision of this estimation in its rules framework, only the provision of the final binding number on the day 45 business days after the DMP Completion Date. The obligation will be on CPs to meet this within two business days upon receiving the notice.

Question 4.8.1: Please provide feedback or comments on the default fund replenishment approach presented above.

Question 4.8.2: Under the proposed default fund replenishment approach, ASXCLF provides estimates of a CP's default fund contribution to the CP shortly after the completion of the last default management process. Do you view this provision as useful for CPs?

5. Implementation Considerations

5.1. Implementation Timelines

Subject to no substantive objections and issues arising from this consultation, the key components of the implementation plan and indicative timelines for the Dynamic Default Fund Framework are as follows:

- Informal lodgement of draft rule amendments intended to give effect to the new framework with Australian regulators. The indicative timing for the lodgement is 30 January 2026.
- Subject to regulatory clearance, ASX intends to switch to the Dynamic Default Fund Framework in Q3 2026.
- Three dress rehearsals running the 3 end-of-month processes and CP notification will be conducted, and these will be timed appropriately before the actual go live date.

Question 5.1.1: Does the indicative implementation timeline provide sufficient time for you to prepare for the implementation of the Dynamic Default Fund Framework?

Question 5.1.2: If the timeline does not provide sufficient time for preparation, please provide the reasons and propose alternative timelines.

Question 5.1.3: Is there other essential information you would like ASX to consider providing with regards to the implementation of the Framework?

5.2. Dress Rehearsals for Notifying CP Default Fund Commitment Change

ASX aims to conduct 3 dress rehearsals before the implementation of the Dynamic Default Fund Framework. These rehearsals involve running 3 end-of-month processes for the 3 months before the actual go live date. As part of the rehearsals, ASX plans to:

- Provide a default fund notice to each CP, detailing the following information applicable to the CP:
  - Total default fund commitment
  - Total fixed default fund commitment for ETD and OTC
  - Total variable default fund commitment for ETD and OTC
  - Recovery assessments estimate
- The total default fund and the default fund cap for ASXCLF will also be provided in the default fund notice

[9] The estimation of the total default fund and each CP's default fund commitment uses the methodology that follows sections 4.1, 4.2, and 4.4. However, the lookback periods for both default fund calculation and allocation will be appropriately selected by ASXCLF.

The default fund notice will be provided on the respective dates set out in the Procedures of the Dynamic Default Fund Framework.

Question 5.2.1: Do you think conducting the 3 dress rehearsals is useful for CPs?

Question 5.2.2: Is there other information you would like ASX to consider providing in the CP commitment notice on an ongoing basis?

5.3. Other Implementation Considerations

ASX is keen to hear if there are other considerations and issues CPs or the broader external stakeholder group may encounter that could impact the implementation of the Dynamic Default Fund Framework, and the mitigants ASX should consider when implementing the framework. Examples can include potential IT / systems changes required and the provision of additional reporting.

Question 5.3.1: Are there other implementation considerations and issues that ASX should consider to ensure the successful implementation of the Dynamic Default Fund Framework?

6. Next Steps

ASX is seeking submissions on the issues canvassed in this paper by 1 September 2025. ASX also aims to analyse feedback from the consultation and provide written responses to public feedback in October 2025. However, if there are substantive objections or issues arise from the consultation, ASX may require more time to consider and respond to the matters raised.

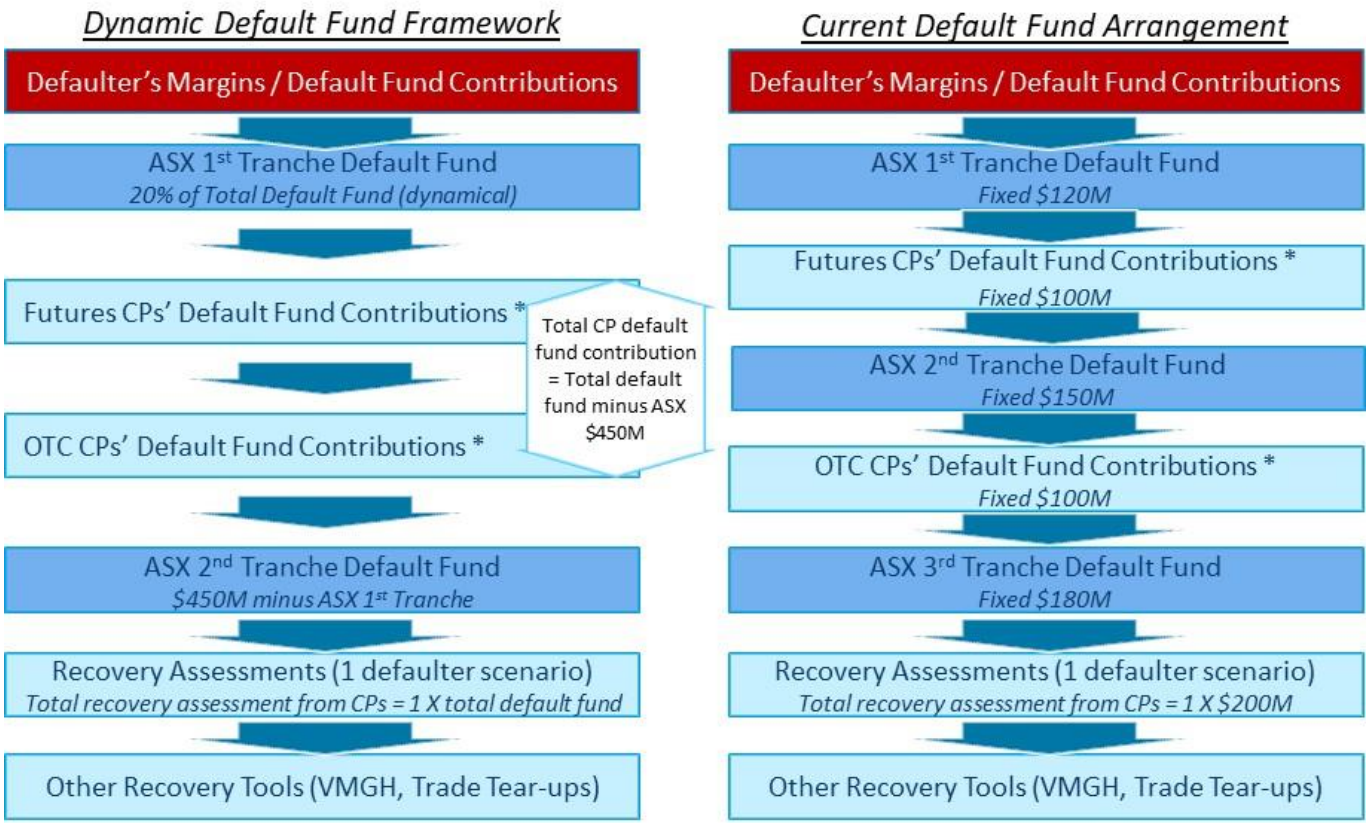
The implementation timelines are set out in section 5.1, and are repeated here (provided there are no substantive objections or issues arising from the consultation)

- Informal lodgement of draft rule amendments intended to give effect to the new Framework with Australian regulators. The indicative timing for the lodgement is 30 January 2026.
- Subject to regulatory clearance, ASX intends to switch to the Dynamic Default Fund Framework in Q3 2026.
- Before the switch, ASX plans to conduct 3 dress rehearsals for the previous 3 month-end default fund resize.

In addition, the Risk Consultative Committee will be updated in August 2025 and November 2025 on the status of the public consultation and regulatory lodgement.

Appendix A: Diagrammatic Representation of Proposed Dynamic Default Fund Framework vs Current Framework

The proposed Dynamic Default Fund Framework is compared to the current fixed $650M default fund arrangement in the diagram below.



* This order of Futures CPs and OTC CPs default fund contribution applies to default of a Futures CP. If an OTC CP defaults, the order reverses.

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