ASX Clear Third Party Clearing Capital Requirements and Other Proposed Amendments

Public Consultation

January 2026

Invitation to comment

ASX is seeking submissions on the issues canvassed in this paper by 27/02/2026. Submissions should be sent to:

E crateam@asx.com.au

ASX Clear Pty Limited
Level 27, 39 Martin Place
Sydney NSW 2000
PO Box H224
Australia Square NSW 1215

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 these matters.

Contacts

For general enquiries, please contact:

Marisa Khan
Senior Manager, Counterparty Risk Assessment
T +61 (0)2 9227 0633
E marisa.khan@asx.com.au

Contents

1. Introduction

This consultation paper outlines proposed changes resulting from a review of the capital requirements for third party clearers (TPCs) conducted by ASX Clear (ASXCL). The most significant change relates to the base requirement component of the core requirement for capital to be held by TPCs as detailed in section 4.1. Other aspects of the capital requirements that were part of the review relate to the use of security deposits (set out in section 4.2) and counterparty risk weighting (set out in section 4.3).

In addition, ASXCL is proposing to implement rule amendments to remove the requirement for daily or weekly reporting for a participant that has a ratio of liquid capital to liquid capital requirement (LCR) of 1.2 or less where the LCR is the core requirement, as detailed in section 5.1.

The draft amendments to the ASXCL Operating Rules and Procedures are shown in the appendices.

ASXCL welcomes feedback on the proposals outlined in this paper (including the draft rule amendments shown in the appendix). Specific consultation questions are included in sections 4 and 5, however ASXCL also welcomes feedback outside of these specific questions relevant to this consultation paper.

Responses to this consultation paper should be submitted by 27 February 2026.

2. Background

Non-bank clearing participants (CPs) are subject to the risk based capital requirements set out in the ASXCL Operating Rules. Under these requirements, CPs (other than those approved as dual capital participants) must maintain liquid capital greater than the liquid capital requirement, which is the higher of the following two requirements:

- core requirement – this is the sum of a base requirement and additional amounts based on the materiality of other activities (client written options clearing, own account business and non-ASX client activity) undertaken by the CP; and
- total risk requirement (TRR) – this reflects the amount of risk taken on by a CP calculated based on the actual positions and exposures a CP has at any point in time and captures counterparty, position, large exposure, operational, underwriting and non-standard risks.

The current base requirement for non-TPCs (direct participants) is $5m but for TPCs it depends on the number of trading participants (TPs)[1] it clears for as shown in the table below. All TPCs are general participants, however there are some general participants that are not currently undertaking TPC activities.

General Participant (Third Party Clearer)		
Tier 1	Base Requirement $5m	Clearing for itself, or Clearing for up to 1 other TP
Tier 2	Base Requirement $10m	Clearing for itself + 1 other TP, or Clearing for 2 other TPs
Tier 3	Base Requirement $15m	Clearing for itself + 2 other TPs, or Clearing for 3 other TPs
Tier 4	Base Requirement $20m	Clearing for itself + 3 or more other TPs, or Clearing for 4 or more other TPs

ASXCL issued a consultation paper in October 2020 on the move from dual capital requirements (core capital and liquid capital) to a single capital measure and requirement (liquid capital). This change effectively meant that the capital calculated using the risk-based approach (the TRR) is floored at the level of the core requirement. In the feedback ASXCL received to this consultation, some TPCs raised issues with their liquid capital being assessed against the core requirement – the move to a single capital measure was seen as disproportionately burdensome for the TPCs since they have a higher base requirement apply to them even though they may clear a substantially smaller portion of the market (by value) than self-clearers. The move to a single capital measure magnified the TPCs' concerns about the existing core requirement for TPCs.

In its response to consultation, ASXCL advised that it intended to conduct a review of the capital requirements for TPCs as a separate exercise to the implementation of the single capital measure.

The rule amendments to implement the single capital measure took effect in February 2025. As the review of the capital requirements for TPCs had not yet been undertaken, ASXCL determined a conditional no action position (see market notice) whereby ASXCL does not intend to take disciplinary action against a TPC if it breaches the requirement to have liquid capital greater than liquid capital requirement, provided that it meets various conditions. This no action position is currently in place and

[1] A TP is a market participant which has trading permission in respect of one or more financial products.

applies until such time as the review of TPC capital requirements has been fully completed and any resulting rule amendments have been implemented.

ASXCL has now undertaken its review. This involved obtaining information from and meeting with TPCs to get insight on how they manage the risk of their TPC activity, including TP due diligence, how limits are set and monitored, use of security deposits and TPCs' termination rights. This enabled ASXCL to reassess the risk profile of TPCs relative to non-TPCs and the appropriateness of the current capital requirements applicable to TPCs.

The aspects of the capital requirements that are specific to TPCs and that have been considered as part of this review are:

- Base requirement component of the core requirement
- Use of security deposits collected from a TP as collateral to reduce counterparty risk amounts on exposures to clients of that TP
- Concessional counterparty risk weighting of 20% for clients of a TP (subject to certain conditions).

3. Review findings

TPCs that clear for TPs assume the clearing obligations on market transactions entered into by TPs.

The key observations arising from the review of TPCs were as follows:

- All TPCs set trading limits for their respective TPs, with these limits documented in their clearing agreements.
- A TP breaching the terms of its clearing agreement, including exceeding trading limits, gives the TPC the right to terminate the provision of clearing service to their respective TPs. However, it is acknowledged that a TPC can only terminate a clearing agreement if ASXCL approves the termination (including having regard to the participation status of the TP, any alternative clearing arrangements it has in place and the arrangements for its cleared positions), whereas a non-TPC CP can typically end its agreement with a client unilaterally.
- All TPCs perform real-time or near real-time monitoring of TPs' trading activities using ASXCL's prompt clearing confirmation messages sent to the TPCs.
- There is no pre-trade checking of TP trades, so TPCs cannot stop the TPs from executing trades which exceed the agreed limits. This is the key difference when compared to non-TPCs. However, TPCs can monitor, either in real-time or near-real-time, compliance with the limit and can take appropriate actions immediately after identification of a breach.
- TPCs may collect security deposits from TPs as a core risk mitigant measure.

Based on these observations, it is evident that the risk profile of TPCs is greater than that of non-TPCs, primarily due to the inability to control the trades that the TPC will be obligated to clear and the inability to unilaterally terminate a clearing arrangement with a TP with immediate effect. However, it is also evident that where the TPC has relevant risk mitigants in place, the difference is not sufficiently high to warrant the current base requirement levels.

Relatedly, given the TRR reflects (inter alia) exposures from cleared volumes, continuing to have the TPC base requirement reflect the number of TPs it clears for and measuring this against the same liquid capital measure as the TRR is effectively a form of double counting. Therefore, it is appropriate to recalibrate the core requirement for TPCs given the introduction of the single capital measure.

4. Proposals for TPCs

4.1. Base requirement

Based on the findings from ASXCL's review of TPCs, it is proposed to change the base requirement for TPCs as follows:

- A general participant that is not clearing for any TPs will have a $5m base requirement. This applies where a general participant has not yet onboarded a TP for its TPC service or where a participant has ceased TPC activity but has not changed to be a direct participant. Such a participant would have the same base requirement as a direct participant, reflecting the fact that it does not face any risks associated with providing TPC services.
- A general participant that is clearing for one or more TPs will have a $10m base requirement regardless of how many TPs it clears for. This will mean a removal of the staggered base requirement based on the number of TPs cleared for. This change is on the basis that the risk to TPCs of providing third party clearing is not necessarily in direct proportion to the number of TPs cleared for and can be affected by risks specific to the TP(s) it clears for. As an example, a TPC may clear for only one

TP but if that TP is "risky" in the sense that it is reckless with its trading and does not adhere to its trading limits, then this TPC will face greater risk than a TPC that clears for four compliant TPs.

- The impact of a single $10m base requirement for TPCs will be:
  - A reduction from the $15m or $20m current base requirement for TPCs currently treated as Tier 3 or Tier 4. This is based on the finding from the review that the risk profile of TPCs, while greater than that of non-TPCs, is not sufficiently high to warrant the current base requirement levels.
  - An increase from the $5m current base requirement for TPCs currently treated as Tier 1 that clear for only one TP (of which there are currently none). This recognises that, even if only clearing for one TP, the TPC is at greater risk than a direct participant due to its inability to control the trades executed by that TP.
  - The continuation of the $10m current base requirement for TPCs currently treated as Tier 2 that clear for itself and 1 TP or that do not self-clear but clear for 2 TPs, for the reasons referred to above.

It is acknowledged that, under this proposal, a TPC that clears for only one TP will have the same base requirement as a TPC that clears for, say, 10 TPs. This situation is already in place under the current rules to some extent, with a TP that clears for four TPs having the same base requirement as a TP that clears for 10 TPs. The core requirement is intended to broadly reflect the potential risk arising from a CP's activities and so it is appropriate for a single base requirement amount to apply to all TPCs to reflect the risk arising from TPC activity more generally. The risk arising from a TP's actual transactions at any point in time will be captured in the TPC's counterparty risk requirement calculations.

The results of the review showed it is reasonable for TPCs to have a higher base capital requirement than non-TPCs. An additional $5m of capital (resulting in a requirement double the base requirement) was considered sufficient to cover the extra risk without being excessive.

TPCs will be expected to meet certain standards which are essentially a codification of the practices seen in the review of the current TPCs. These standards are set out below and will be documented in the ASXCL Operating Rules Procedures:

- TPC has agreed appropriate trading limits set against each TP and these are documented in its clearing agreements;
- TPC is receiving and using, for monitoring purposes, ASXCL's notifications of cleared transactions on an ongoing basis;
- TPC is monitoring each TP's utilisation of the agreed trading limits at least every hour, on an ongoing basis;
- The clearing agreement with each TP contains legally enforceable rights for the TPC to terminate the clearing agreement, including in the scenario where the TP exceeds the agreed trading limits; and
- TPC enforces the termination rights referred to in the point above where appropriate.

TPCs will be required to provide an annual certification that they meet the standards and provide responses to questions relating to any instances where the agreed trading limits were exceeded. TPCs will also be required to notify ASXCL if there are any substantial changes in their risk management as it relates to TPC activities. If a TPC does not meet the standards or if ASXCL considers that any material changes notified or responses provided are not appropriate or in accordance with the standards, then ASXCL will look to take action that it considers to be appropriate based on the individual circumstances. Such action could potentially include imposing a secondary requirement under ASXCL Rule S1.3.3 to cover the increased levels of operational risk arising from not meeting the standards or imposing admission conditions that impose a higher liquid capital requirement than would otherwise apply or restrict the TPC's activity (which may include restrictions on taking on new clients or TPs, restrictions on the type of activity or transactions that can be undertaken or limits on participant margin).

Consultation Questions:

1. Do you agree that the risks arising from undertaking TPC activity merits a higher base requirement for TPCs than for non-TPCs?
2. If yes, do you consider the amount of $10m (being $5m higher than for non-TPCs) to be appropriate?
3. Do you consider it appropriate to move away from having the base requirement being linked to the number of TPs cleared?
4. Do you have any other feedback or comments on the proposed changes to the base requirement?
5. Do you have any feedback on the draft rule amendments for this change?

4.2. Use of security deposits

Under the risk based capital requirements, collateralisation can be used to reduce counterparty risk amounts for certain transaction types. The application of collateralisation is not compulsory.

Where a TPC collects a security deposit from a TP that it clears for and this is in the form of cash and is documented in the clearing agreement as being the TPC's property, then such deposit can be treated as collateral and ASXCL has permitted this to be used to reduce the TPC's counterparty risk amounts to the TP's clients.

To date, advice on the use of security deposits as collateral for the purposes of reducing counterparty risk amounts has been provided individually to TPCs that have security deposits as part of their clearing arrangements. This advice has essentially been a specific application of the provisions for use of collateral under the non-margined financial instruments method.

As part of its review, ASXCL has concluded that it is appropriate for security deposits, where eligible, to be recognised as collateral to reduce counterparty risk amounts on clients of the TP providing the deposit.

ASXCL proposes to incorporate the recognition of eligible security deposits as collateral directly into the Operating Rules. Given that the security deposits are for the purposes of cash market or ETO trades cleared by ASXCL, this recognition is only reflected in the non-margined financial instruments method and margined financial instruments method.

The allocation of the security deposit amount from a particular TP across exposures to clients of that TP for the purposes of calculating counterparty risk amounts under ASXCL Rule S1 will be at the discretion of the TPC. Security deposits collected from a particular TP must only be applied against exposures to the clients of that TP and not to clients of other TPs.

It is also recognised that non-TPCs may also collect security deposits from intermediaries whose clients they execute and clear for. ASXCL recognises that such security deposits should also be recognised as collateral for the purposes of reducing counterparty risk amounts. Therefore, the rule amendments to expressly recognise security deposits from TPs will also extend to security deposits from intermediaries. An intermediary is proposed to be defined as a financial services licensee who places with, or communicates to, the participant orders to buy or sell financial products as agent for a client of the licensee.

Consultation Questions:

6. Do you agree with the incorporation in the rules of eligible security deposits as a method of reducing counterparty amounts?
7. Do you agree with this applying to both security deposits collected by TPCs from TPs as well as security deposits collected by CPs more broadly from intermediaries?
8. Do you have any feedback on the draft rule amendments for this change?

4.3. Counterparty risk weighting

Under the risk based capital requirements, a participant can apply counterparty risk weighting (CRW) to reduce its counterparty risk amounts. The principle behind CRWs is to recognise the varying credit quality of different types of counterparties. The application of CRWs is not compulsory.

Exposures to a TP that a TPC clears for are eligible for a 20% CRW (unless the TP is a principal trader as defined in the ASIC Market Integrity Rules (Capital) 2021). This is on the basis that the TP is either:

- a market participant that complies with the Risk-Based Capital Requirements as defined in the ASIC Market Integrity Rules (Capital) 2021; or
- an ASXCL participant that complies with the risk based capital requirements under the ASXCL Operating Rules.

Where a TPC has recourse to the TP in the event of that TP's client failing to meet its obligations to the TPC, a concessional CRW treatment can be applied. TPCs are permitted to apply the 20% CRW to the clients of a TP for exposures arising from trades that are cleared by the TPC under the clearing arrangement and where all of the following criteria are met:

- the clearing agreement must provide the TPC with direct, explicit, irrevocable and unequivocal recourse to the TP in the event of a client failing to meet its obligations to the TPC;
- the TPC must still calculate counterparty risk amounts for each client separately (i.e. it cannot treat the TP as its counterparty instead of the clients);
- this treatment only applies for counterparty exposures to the TP's clients arising from cash market trades and exchange traded option trades. It does not apply to free delivery, securities lending and borrowing or OTC transactions;
- this treatment does not apply if the TP is a principal trader as defined in the ASIC Market Integrity Rules (Capital) 2021;
- the TP must be in compliance with the capital requirements that apply to it under either the ASIC Market Integrity Rules (Capital) 2021 or the ASXCL Operating Rules; and
- the 20% CRW no longer applies if, 10 business days after the TPC is entitled to direct the obligation to the TP, the TPC has not done so (other than for client short sale transactions, whereby the 20% CRW can be applied irrespective of the period of time that the client sell contract has been open).

As part of this review, ASXCL has considered the 20% CRW for exposures to TPs (other than principal traders) and determined it appropriate to retain it at this level rather than increasing it. This is on the basis that such TPs are subject to comprehensive risk based capital requirements and oversight/monitoring, whether this is by ASXCL or ASIC.

ASXCL has also considered the appropriateness of the concessionary 20% CRW treatment for eligible exposures to clients of a TP and determined to retain it as it is a valid means of recognising the recourse that a TPC has to a TP if a client fails to meet its obligations. The treatment is being retained with no change and will continue to be documented in the Capital Liquidity Handbook rather than being included explicitly in the Operating Rules.

As a result, there are no associated rule amendments being proposed in relation to CRWs.

Consultation Questions:

9. Do you agree that a 20% CRW remains appropriate for exposures to TPs (other than principal traders)?
10. Do you agree that the concessionary 20% CRW treatment for eligible exposures that a TPC has to clients of a TP remains appropriate?

5. Other rule amendments

5.1. Daily/weekly reporting requirements

Under the ASXCL Operating Rule amendments which took effect on 21 February 2025, a participant that is not a dual capital participant is required to notify ASXCL if its ratio of liquid capital (LC) to liquid capital requirement (LCR) falls to 1.2 or less. The participant is then required to submit a return in the prescribed form (ad hoc return) within one business day of such notification. Subsequent to this, daily or weekly reporting is required depending on the level of the ratio.

The requirement for the notification and subsequent daily or weekly reporting (regardless of whether the LCR is the core requirement (CR) or total risk requirement (TRR)) was noted in the October 2020 consultation paper. No feedback was received in relation to this.

Further consideration in the lead-up to the implementation of the new rules suggested that there is no value to be gained from daily or weekly returns when the LCR is the CR. This is because of the likely stability of the ratio of LC to LCR when the LCR is the CR.

In order to address this, it is proposed that the rule be amended to remove the daily and weekly reporting requirement where the participant's LCR is the CR. The requirement to notify ASXCL if the ratio of LC to LCR falls to 1.2 or less will remain, as will the requirement to submit an ad hoc return within one business day of that notification. The participant would not need to then submit daily or weekly returns but it would need to notify if the ratio fell to 1.0 or less (i.e. a breach of the minimum requirement). We note that if the participant's TRR increases above its CR (so that the TRR becomes the LCR), then the requirement for daily or weekly returns will apply.

Consultation Questions:

11. Do you agree with the proposed changes to the daily/weekly reporting requirement where the LCR is the CR?
12. Do you have any comments on the draft rule amendments for this change?

5.2. Other

A minor change is being made to correct a typographical error in the internal models approach section (Rule S1, Annexure 3, Part 4, clause 32(g)).

6. Next Steps

Subject to the outcome of this consultation process and any further work that may be required as a result of this, ASXCL intends to publish its response to consultation by the end of April 2026.

The implementation of the rule amendments will be subject to regulatory clearance and is also dependent on internal system changes. The implementation timing is therefore uncertain at this stage. ASXCL will advise the market when there is more certainty on the timing. No changes will be required to the Financial Returns Application or the content of any returns.

Appendix – Draft Amendments to the ASX Clear Operating Rules and Procedures

ASX CLEAR OPERATING RULES

SCHEDULE 1 RISK BASED CAPITAL REQUIREMENTS

S1.1 DEFINITIONS AND INTERPRETATION

S1.1.1 Definitions

In Rule S1, unless the context otherwise requires:

…

"Intermediary" means a financial services licensee who places with, or communicates to, the Participant orders to buy or sell financial products as agent for a client of the licensee.

…

"Tier 2 General Participant" means a General Participant that is classified as Tier 2 in Table B in Rule S1.2.1(2)(a).

…

S1.2 OBLIGATIONS OF PARTICIPANTS

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

…

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

(a)

Table A – Direct Participants – Base Requirement
$5,000,000

Table B – General Participants – Base Requirement		
Tier 1	$5,000,000	Clearing for itself only ~~or up to one~~ (ie. it is not clearing for Externals).
Tier 2	$10,000,000	Clearing for~~:~~ ~~itself and~~ one or more Externals~~, or two Externals~~ (regardless of whether it is also clearing for itself).
~~Tier 3~~	~~$15,000,000~~	~~Clearing for:~~ • ~~itself and two Externals, or~~ • ~~three Externals.~~
~~Tier 4~~	~~$20,000,000~~	~~Clearing for:~~ • ~~itself and three or more Externals, or~~ • ~~four or more Externals.~~

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

...

(5) A Tier 2 General Participant:

(a) is expected to meet the standards set out in the Procedures;

(b) must notify ASX Clear as soon as practicable if there are any material changes in its risk management as it relates to third party clearing activities; and

(c) must provide an annual response and certification in the form prescribed by ASX Clear and by the time set out in the Procedures.

(6) In the event that a Tier 2 General Participant fails to comply with Rule S1.2.1(5) or any of the material changes notified or responses provided by the Participant under Rule S1.2.1(5)(b) or (c) are not considered by ASX Clear to be appropriate or in accordance with the standards under Rule S1.2.1(5)(a), action that ASX Clear may take includes:

(a) imposing a Secondary Requirement on the Participant; or

(b) imposing conditions on the Participant under Rule 3.1.4, including:

(i) a requirement that the Participant maintain Liquid Capital that is additional to the amount that it is required to maintain under Rule S1.2.1(1); or

(ii) restrictions on its third party clearing activities.

S1.2.2 Notifying ASX Clear

(1) Unless the Participant is a Dual Capital Participant, it must notify ASX Clear immediately if its Liquid Capital divided by its Liquid Capital Requirement is equal to or falls below 1.2.

(1A) A Participant that is a Dual Capital Participant must notify ASX Clear immediately if its:

(a) Core Capital is at any time less than its Core Requirement; or

(b) Liquid Capital divided by its Total Risk 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) or Rule S1.2.2(1A) (as applicable); and

(b) from then on, for a Participant that is not a Dual Capital Participant where its Liquid Capital Requirement is the Total Risk Requirement, or for a Participant that is a Dual Capital Participant, either:

(i) weekly, for so long as the amount referred to in Rule S1.2.2(1) or Rule S1.2.2(1A)(b) (as applicable) 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) or Rule S1.2.2(1A)(b) (as applicable) is 1.1 or less.

(3) A Participant that is not a Dual Capital Participant and is not required to provide weekly or daily returns under Rule S1.2.2(2)(b) because its Liquid Capital Requirement is the Core Requirement must notify ASX Clear immediately if its Liquid Capital divided by its Liquid Capital Requirement is equal to or falls below 1.0.

Introduced 11/03/04 Amended 01/01/10, 21/02/25

...

ANNEXURE 1 COUNTERPARTY RISK REQUIREMENT

1 COUNTERPARTY RISK REQUIREMENT

...

2 NON-MARGINED FINANCIAL INSTRUMENTS METHOD

(a) For unsettled trades in Financial Instruments which are not margined and not covered by one of the other methods in this Annexure, and for unsettled trades in margined Equities, Debt Instruments and warrants, the counterparty risk amount is 3% of the Client Balance, where this balance does not include trades which remain unsettled with the Counterparty for greater than 10 Business Days following the transaction date.

A Participant may reduce the Client Balance by:

(i) the amount of Financial Instruments held by the Participant on behalf of the Counterparty if they specifically relate to the sale trades pending settlement with the market or by the amount of collateral held by the Participant on behalf of the specific Counterparty if the collateral is Liquid, valued at the mark to market value or another value approved by ASX Clear and the collateral arrangement is evidenced in writing between the Participant and the Counterparty~~.~~; and

(ii) a portion of the amount of security deposit collected from a Market Participant or Intermediary for which the Participant clears Market Transactions if:

A. the Client Balance is for a Counterparty that is a client of that Market Participant or Intermediary;

B. the security deposit is in the form of cash;

C. it is evidenced in writing between the Participant and the Market Participant or Intermediary that the security deposit is the Participant's property;

D. the security deposit can be retained by the Participant to offset its exposure on unsettled trades with the Counterparty referred to in clause 2(a)(ii)(A); and

E. the security deposit is not held on trust for any party.

The portion of the security deposit used to reduce the Client Balance under clause 2(a) for a particular Counterparty is at the discretion of the Participant, provided that the aggregate amount used under clauses 2(a), 2(b) and 5(e) for clients of a Market Participant or Intermediary is not greater than the amount of security deposit collected from that Market Participant or Intermediary.

(b) For unsettled trades in Financial Instruments which are not margined and not covered by one of the other methods in this Annexure, and for unsettled trades in margined Equities, Debt Instruments and warrants, the counterparty risk amount for trades remaining unsettled for greater than 10 Business Days following the transaction date is at the choice of the Participant:

(i) either:

A. 3% of the contract value; or

B. the excess of:

I. the contract value over the market value of each Financial Instrument in the case of a client purchase; and

II. the market value of each Financial Instrument over the contract value in the case of a client sale,

whichever is the greater; or

(ii) 100% of the contract value for a client purchase or 100% of the market value for a client sale.

A Participant may reduce the contract values and the excesses by:

(iii) the amount of collateral held by the Participant on behalf of the Counterparty if the collateral is Liquid, valued at the mark to market value or another value approved by ASX Clear and the collateral arrangement is evidenced in writing between the Participant and Counterparty; and

(iv) a portion of the amount of security deposit collected from a Market Participant or Intermediary for which the Participant clears Market Transactions if:

A. the trades are for a Counterparty that is a client of that Market Participant or Intermediary;

B. the security deposit is in the form of cash;

C. it is evidenced in writing between the Participant and the Market Participant or Intermediary that the security deposit is the Participant's property;

D. the security deposit can be retained by the Participant to offset its exposure on unsettled trades with the Counterparty referred to in clause 2(b)(iv)(A); and

E. the security deposit is not held on trust for any party.

The portion of the security deposit used to reduce the contract values and excesses under clause 2(b) for a particular Counterparty is at the discretion of the Participant, provided that the aggregate amount used under clauses 2(a), 2(b) and 5(e) for clients of a Market Participant or Intermediary is not greater than the amount of security deposit collected from that Market Participant or Intermediary.

(c) A Participant need not include credit amounts included in a Client Balance where such amounts represent an amount of cash held in the Participant's trust and/or segregated account.

(d) This method does not apply to OTC Derivatives but does apply to warrants which also may be covered by the method in clause 6.

Introduced 11/03/04, 07/06/13

...

5 MARGINED FINANCIAL INSTRUMENTS METHOD

For trades in Financial Instruments which are margined, other than unsettled trades in margined Equities, Debt Instruments and warrants, the counterparty risk amount for a Counterparty:

(a) is the full value of the outstanding settlement amount, premium, deposit or margin call that the Counterparty is required to pay to the Participant, regardless of whether or not the Participant is required to pay that amount to an exchange, clearing house or other entity;

(b) is the full value of the outstanding settlement amount, premium, deposit or margin call that is due from an entity with respect to client or house trades cleared by that entity;

(c) commences at the time that amounts are normally scheduled for payment to the relevant exchange or clearing house.

A Participant may reduce the unpaid settlement amount, premium, deposit or margin call by:

(d) the amount of cash paid by the Counterparty or collateral held by the Participant on behalf of the Counterparty if the collateral is Liquid, valued at the mark to market value or another value approved by ASX Clear and the collateral arrangement is evidenced in writing between the Participant and Counterparty; and

(e) a portion of the amount of security deposit collected from a Market Participant or Intermediary for which the Participant clears Market Transactions if:

(i) the unpaid settlement amount, premium, deposit or margin call is due from a Counterparty that is a client of that Market Participant or Intermediary;

(ii) the security deposit is in the form of cash;

(iii) it is evidenced in writing between the Participant and the Market Participant or Intermediary that the security deposit is the Participant's property;

(iv) the security deposit can be retained by the Participant to offset its exposure on unpaid settlement amount, premium, deposit or margin call due from the Counterparty referred to in clause 5(e)(i); and

(v) the security deposit is not held on trust for any party.

The portion of the security deposit used to reduce the counterparty risk amount under clause 5(e) for a particular Counterparty is at the discretion of the Participant, provided that the aggregate amount used under clauses 2(a), 2(b) and 5(e) for clients of a Market Participant or Intermediary is not greater than the amount of security deposit collected from that Market Participant or Intermediary.

Introduced 11/03/04, 07/06/13

...

ANNEXURE 3 POSITION RISK REQUIREMENT

…

PART 4 – THE INTERNAL MODELS APPROACH

…

32 FRAMEWORK FOR THE USE OF BACK TESTING

…

(g) Using the most recent 12 months of data yields approximately 250 daily observations. ASX Clear will use the number of exceptions (out of 250) generated by the Participant's model as the basis for determining the plus factor to be applied. The supervisory response is based on a three-zone approach described below and the applicable plus factors are set out in Table 1.8 of ~~Schedule~~ Annexure 5.

(i) The green zone is where there are 4 or fewer exceptions in a sample of 250 outcomes.

(ii) The yellow zone is where there are 5 to 9 exceptions in a sample of 250 outcomes. Where a Participant's back testing results are in the yellow zone, ASX Clear may request additional information (eg disaggregated back testing results, explanations for the exceptions) to assist in determining the supervisory response. The plus factors for the yellow zone as set out in Table 1.8 of ~~Schedule~~ Annexure 5 are not meant to be purely automatic. However, to keep the incentives aligned properly, back testing results in the yellow zone should generally be presumed to imply an increase in the scaling factor unless the Participant can demonstrate that such an increase is not warranted. ASX Clear will decide whether or not to apply increases in the Participant's capital requirement by imposing the plus factor, or possibly to disallow the use of an internal model.

(iii) The red zone is where there are 10 or more exceptions in a sample of 250 outcomes. Where a Participant's back testing results are in the red zone, the plus factor of one will automatically apply. ASX Clear will also investigate the reasons why the Participant's model produced such a large number of exceptions, and will require the Participant to begin work on improving its model immediately. Finally, in the case of severe problems with the basic integrity of the model, ASX Clear may disallow the use of the model for capital purposes altogether.

…

ASX CLEAR OPERATING RULES PROCEDURES

…

SCHEDULES TO ASX CLEAR OPERATING RULES

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

1. For the purposes of Rule S1.2.1(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(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(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(2)(c) or S1.2.1(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(2)(c); or

   (b) non-ASX client activity undertaken by the Participant for the purposes of Rule S1.2.1(2)(d),

so that the same activity is not assessed under both of those Rules.

6. For the purposes of Rule S1.2.1(5)(a), a Tier 2 General Participant is expected to meet the following standards:

   (a) the Participant must have agreed appropriate trading limits set against each Market Participant for which it is clearing Market Transactions and these must be documented in its Clearing Agreement with each Market Participant;

   (b) the Participant must be receiving and using, for the purposes of paragraph 6(c), ASX Clear's notifications of cleared transactions on an ongoing basis;

   (c) the Participant must monitor utilisation of the agreed trading limits at least every hour, on an ongoing basis, for each Market Participant for which it is clearing Market Transactions;

   (d) the Clearing Agreement with each Market Participant for which the Participant is clearing Market Transactions must contain legally enforceable rights for the Participant to terminate the Clearing Agreement, including in the scenario where the Market Participant exceeds the agreed trading limits. Such termination is subject to ASX Clear's acceptance under Rule 9.1.11; and

   (e) the Participant enforces the termination rights referred to in paragraph 6(d) where appropriate.

7. For the purposes of Rule S1.2.1(5)(c), the form of annual response and certification is set out in Annexure 14. The time by which a Tier 2 General Participant must provide the annual certification to ASX Clear is 31 July each year.

…

ANNEXURE 14 TIER 2 GENERAL PARTICIPANT – RESPONSE AND CERTIFICATION

This response and certification is for [insert name of participant] ("the Participant") and covers the period while the Participant was a Tier 2 General Participant during the year ended 30 June [insert year]* ("the Certification Period").

Response

Question	**Response**
1. Were there instances during the Certification Period where the agreed trading limits were exceeded by any Market Participant for which the Participant clears Market Transactions? (Yes/No)	
2. If the response to Q1 is yes, then for each Market Participant that exceeded trading limits, provide:	
(a) the number of limit breaches	
(b) the duration of each breach	

Question	Response
(c) the size of each breach	
(d) the action taken in response to each breach and the rationale for that action, including if a decision was made not to terminate the Clearing Agreement with that Market Participant why this was determined to be appropriate	

Certification

We certify that the Participant met the standards it is expected to meet under ASX Clear Operating Rule S1.2.1(5)(a) (as set out in the ASX Clear Operating Rules Procedures) at all times during the Certification Period.

Name of director:	Name of director:
Signature:	Signature:
Date:	Date:
Date of board resolution (if applicable):	

* For the first certification required, the wording “during the year ended 30 June [year]” should be changed to “during the period from [xxxxx] to 30 June [year]”, where [xxxxx] reflects when the standards under ASX Clear Operating Rule S1.2.1(5)(a) came into effect.

Certification is to be signed by two directors or by one director in accordance with a resolution of the board of directors (in which case the date of the resolution must be specified).