

9 September 2025

ASX Limited
20 Bridge Street
Sydney NSW 2000
PO Box H224
Australia Square NSW 1215

By email

Attention: Key-Yong Tee

Subject: Response to ASX Clear Futures Dynamic Default Fund Framework consultation

Dear Mr. Tee,

The International Swaps and Derivatives Association, Inc (ISDA)¹ appreciates the opportunity to provide comments to ASX Clear (Futures) (ASX) on its public consultation on its Dynamic Default Fund Framework². We also thank ASX for its openness in engaging with us, including the presentation of the proposal and addressing our members questions directly, which greatly helped with members' understanding.

Please refer to the table below for our feedback.

Questions	Feedback
Question 4.1.1: Do you have any feedback or comments on ASX's commitment to ASXCLF's default fund under the proposed framework?	<p>We welcome ASX's large SITG – which will remain as one of the highest when compared with other CCPs.</p> <p>We are generally supportive of the direction of changes under the proposed framework, which is an improvement of the current framework. However, we have set out suggested changes below to the proposed framework to align with industry standards / best practices.</p>
Question 4.2.1: Please provide your feedback or comments on the proposed methodology for calculating the total default fund size.	<p>We welcome the use of Cover 2 pre-AIM stress losses to size Clearing Participants (CPs)' funded default fund (DF) and note that this is in line with best practices.</p> <p>While we understand ASX's rationale for proposing the use of average CST pre-AIMs Cover-2 exposure over the</p>

¹ Since 1985, ISDA has worked to make the global derivatives markets safer and more efficient. Today, ISDA has over 1,000 member institutions from 76 countries. These members comprise a broad range of derivatives market participants, including corporations, investment managers, government and supranational entities, insurance companies, energy and commodities firms, and international and regional banks. In addition to market participants, members also include key components of the derivatives market infrastructure, such as exchanges, intermediaries, clearing houses and repositories, as well as law firms, accounting firms and other service providers. Information about ISDA and its activities is available on the Association's website: www.isda.org.

² <https://www.asx.com.au/content/dam/asx/about/regulations/public-consultations/2025/asxclf-dynamic-default-fund-public-consultation-paper.pdf>

Questions	Feedback
	<p>look-back period, we view this methodology insufficient during periods of stress. If the DF is sized based on averages and the stress exposures are increasing, for instance due to high volume or volatility, the total coverage of ASX will depend on the additional margin called for the stress margin. In a situation where a clearing member increases its positions above its STEL, the additional risk would be covered by additional margin, which does not have to be pre-funded. If this member defaults under stressed conditions before it has paid the additional margin, the risk will be covered by the default fund, i.e. mutualised amongst surviving clearing members. We recommend that ASX adopts maximum CST pre-AIMs Cover-2 exposure over the look-back period to size the default fund instead, unless ASX is prepared to introduce a requirement to pre-fund margin. In this context, it would be helpful if ASX could share the interplay between DF sizing and STEL/AIM. This will allow our members to better assess the extent ASX's proposal is dependent on STEL/AIM.</p> <p>DFs are intended to cover extreme but plausible scenarios, which a peak-based approach captures more appropriately. For example, in a rising equity market, averaging exposures across a recent 3-month period and a 3-month period ending 9 months ago could result in a DF below the appropriate size and underestimates current risk.</p> <p>Finally, we welcome the inclusion of the 10% buffer, which we view as prudent. We recommend that this buffer be applied to both lookback periods, not just the most recent one.</p> <p>Question: Could ASX share how Kccp and the c-factor would have changed under the use of average exposure versus max exposure sizing? This would help members better understand the capital implications of the proposed methodology.</p>
<p>Question 4.2.2: Do you have any feedback or comments on the proposed selection of the look-back period under the proposed Framework?</p>	<p>Assuming ASX adopts maximum exposure over the lookback periods for the DF sizing, we suggest simplifying the methodology by replacing the two lookback periods with a single extended period of 6-12 months. This would capture both recent market conditions and seasonality changes, while aligning more</p>

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	<p>closely with practices at most CCPs, which typically rely only on the most recent observations.</p> <p>Questions: Could ASX share its backtesting analysis with regards to seasonality based on proposed selection of look-back period?</p> <p>Does including activity from 9months ago materially changes the default fund size in the backtest results? In other words, is the seasonality observed in the commodities segment significant enough to warrant this longer look-back period?</p> <p>With the two proposed look back periods, how would the adequacy of the default fund be determined to cover stress periods such as COVID or GFC?</p>
<p>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?</p>	<p>We recommend ASX to adopt maximum pre-AIMs Cover-2 exposure instead of average CST pre-AIMs Cover-2 exposure for reasons stated above.</p> <p>Additionally, we encourage ASX to apply prudence and provide transparency in the use of STEL and AIMs to right size the counterparty risk ASX will be taking and mitigate outsized exposures between each DF resizing.</p> <p>Questions: Could ASX share the impact on the DF sizing comparing Average and Maximum?</p> <p>While using peak CST (instead of average) would increase CP's default fund contribution, it would yield 98% pre-AIMs coverage. Did the CCP consider the 2nd peak in their assessment, and what is the rationale for not considering it?</p> <p>ASX mentioned that AUD 790m is the peak default fund based on the new proposed framework (average CST) according to 18-months of back testing. Would ASX share the impact analysis on the total default fund contribution?</p>
<p>Question 4.2.4: What is your view on setting an explicit cap on the total default fund size and the associated review processes?</p>	<p>We support setting an explicit cap on the total default size and note that this is practiced by other CCPs (e.g. LCH).</p> <p>We recommend that the DF cap be subject to periodic review and adjustment, with clear disclosure of</p>

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	<p>conditions or triggers for review, the timeframe for such reviews, and whether CPs will be consulted or notified.</p> <p>Further, we note that ASX confirmed during the presentation call with members that if the DF cap is revised upwards due to higher market volumes, ASX capital will remain fixed at AUD 450m, with the top up called from CPs. In this regard, we recommend that the review of the default fund cap should not only include CPs’ contribution but also ASX capital in order to better align ASX’s interest with those of its CPs.</p> <p>Question: We note that the total DF will be capped at AUD 1.3b, subject to annual review, with a threshold of 95% (or AUD 1.235b) triggering an off-cycle review. In the event that ASX determines that the cap should be increased, we seek clarification on the following: i. How will this decision be communicated to CPs? ii. When will CPs be required to post any additional DF contributions?</p>
<p>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?</p>	<p>We note that the monthly resizing of the DF aligns with industry standards.</p>
<p>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?</p>	<p>This is a good approach and aligns with industry standards. Some listed CCPs (mostly in the US) also incorporate a 10–20% allocation based on trading volume to capture CMs that are actively trading the products but do not maintain significant end-of-day risk positions. For example, CME’s allocation is based on 90% stress loss and 10% volume.</p>
<p>Question 4.4.2: Is the proposed approach of using the average CST pre-AIMs Cover-1 exposure over the most recent 3- calendar-month period to allocate default fund to the CPs a fair approach? If not, what alternatives would you suggest and why?</p>	<p>We support the use of average CST to allocate DF across members for equitable distribution of risk.</p> <p>However, with respect to the lookback period, we recommend that the allocation methodology should align with the calculation of the DF size.</p> <p>If ASX maintains the two separate lookback periods, allocations should be based on the CST pre-AIMs for members during the relevant periods, not just the most recent 3 months. We would suggest a longer lookback to</p>

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	<p>cover seasonality changes, which would also align with ASX’s initial proposal of two lookback periods.</p> <p>In addition, we recommend that ASX disclose which lookback period has driven the DF size outcome as part of its monthly DF resizing notification.</p>
<p>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.</p>	<p>The proposal is reasonable and aligns with industry standards. We suggest that ASX consider adopting a timeline of 3 business days notice + 2 business days for funding, which could help reduce potential reliance on AIMS.</p>
<p>Question 4.5.1: Please provide feedback or comments on the proposed default waterfall structure.</p>	<p>We strongly recommend retaining the current default waterfall with three tranches as under all three scenarios (a Futures CP defaults, an OTC CP defaults, or a CP with activities in both Futures and OTC defaults), a Futures CP is worse off when an OTC CP defaults and vice versa in the proposed new default waterfall structure.</p> <p>We do not support a framework in which a default in one product segment causes spillover losses into another. The second tranche in the current structure provides important protection by ensuring Futures CPs are insulated from OTC defaults, and vice versa.</p> <p>If ASX nevertheless pursues a two-tranche simplification, we recommend sizing its first tranche to match the current combined first and second tranches (i.e., \$270 million) to preserve this level of protection.</p> <p>Questions: What is relative proportion of CP’s contribution for Futures and OTC segments for sizing the segmental layer? Will this be the same as under the existing structure?</p>
<p>Question 4.6.1: Do you support the considerations given for retaining STEL and AIMS under the Dynamic Default Fund Framework?</p>	<p>We are broadly supportive of retaining STEL and AIMS under the Dynamic Default Fund Framework, as these tools can help mitigate outsized positions between default fund resizings and gives ASX more flexibility to manage risks between scheduled default fund recalculations, without having to constantly resize the fund.</p> <p>However, members request greater transparency on how ASX intends to adjust the STEL. Specifically, if higher default fund sizes lead to higher STELS, this may reduce</p>

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	<p>AIM calls for CP with outsized exposures. While this would lower their AIM requirements, it could shift more loss-sharing to non-defaulting participants through larger DF contributions, potentially deviating from the defaulter-pays principle. We therefore request ASX to share its risk analysis on this point and clarify how it will maintain alignment with the defaulter-pays principle.</p> <p>Also, STEL and AIMS would likely be lower and less frequently utilised if DF sizing were based on the peak exposures observed over the relevant period, rather than the proposed use of averages. In either case, adjustment of STEL should adequately and fairly reflect ASX’s risk tolerance and avoid transferring additional risk to other CPs through loss sharing.</p> <p>Questions: If STEL is based on total DF size which will be variable under the dynamic default fund framework, we note that STEL will be changing from time to time. How would the updated STEL be communicated to CMs?</p> <p>Could ASXCLF clarify the order of preference in applying these tools if both the ad hoc Default Fund and STEL AIMS are triggered simultaneously?</p>
<p>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?</p>	<p>We strongly disagree with the recovery assessment proposal.</p> <p>Most CCPs charge recovery assessment based on CPs’ funded default fund contribution (without inclusion of SITG), thus CPs’ liability cap is fixed and more predictable. Under ASX’s proposal, recovery assessment will be based on total DF size including the full amount of SITG (i.e. the full 450mm CCP capital). As a result, CPs’ liability cap will fluctuate and increase significantly, reaching up to 9.75x for multiple defaults (refer to Table 1 below). This will add uncertainty to CPs and further strain their liquidity at time of stress.</p> <p>We would like to highlight that in many CCPs, the CPs’ liability cap is typically defined based on a multiple of recovery assessment (unfunded DFC) over funded DFC, and exclusive of the CCP’s SITG.</p> <p>In order to compensate for the relatively larger SITG, it will be more straight forward for ASX to charge a slightly higher fixed multiple i.e., 2x of CPs’ funded</p>

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	<p>default fund contribution (DFC) for a single default and 3x of CPs’ funded DFC for multiple defaults. ASX can also rely on STEL AIMS to provide for additional resources which will be more aligned with the defaulter pay principle.</p> <p>Also, when the DF has to be replenished to pre-exhaustion level, ASX should also contribute to the replenishment (e.g., 30% of total DF).</p> <p><u>Table 1: CPs’ liability cap based on range of total default fund size</u></p> <table border="1" data-bbox="663 757 1385 1238"> <thead> <tr> <th>Total Default Fund</th> <th>Funded DFC (FDFC) (assuming 5% allocation)</th> <th>Unfunded DFC (UDFC)</th> <th>Liability Cap (UDFC/FDFC)</th> </tr> </thead> <tbody> <tr> <td>\$650MM</td> <td>5% x (650-450) = 10</td> <td>5% x (3 x 650) = 97.5</td> <td>9.75x</td> </tr> <tr> <td>\$1,300MM</td> <td>5% x (1,300-450) = 42.5</td> <td>5% x (3 x 1,300) = 195</td> <td>4.59x</td> </tr> </tbody> </table>	Total Default Fund	Funded DFC (FDFC) (assuming 5% allocation)	Unfunded DFC (UDFC)	Liability Cap (UDFC/FDFC)	\$650MM	5% x (650-450) = 10	5% x (3 x 650) = 97.5	9.75x	\$1,300MM	5% x (1,300-450) = 42.5	5% x (3 x 1,300) = 195	4.59x
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<p>Question 4.8.1: Please provide feedback or comments on the default fund replenishment approach presented above.</p>	<p>We note that ASX has 21 business days to replenish its SITG, which is considerably longer than the requirements imposed on clearing members. We recommend that ASX align its replenishment timelines with that required of CPs. Both the current and proposed timelines are slow relative to the severity of events that could lead to DF exhaustion. The Nasdaq default event illustrates the importance of swift action: in such circumstances, timely replenishment of CCP’s SITG and DF is critical to maintaining confidence in the safety and soundness of the CCP.</p> <p>We also want to highlight that a 45-business-day replenishment period could result in up to five effective default scenarios within a year of continuous defaults. We also believe that if a member resigns after making a replenishment, it should not be required to contribute to subsequent replenishment cycles.</p>												
<p>Question 4.8.2: Under the proposed default fund replenishment approach,</p>	<p>We view this provision to be useful from a funding perspective.</p>												

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<p>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?</p>	
<p>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?</p>	<p>Yes, we consider the proposed timeline to be reasonable. Three months' notice with indicative impact analysis should be sufficient, though implementation could proceed faster if needed.</p>
<p>Question 5.1.2: If the timeline does not provide sufficient time for preparation, please provide the reasons and propose alternative timelines.</p>	<p>No comments.</p>
<p>Question 5.1.3: Is there other essential information you would like ASX to consider providing with regards to the implementation of the Framework?</p>	<p>We recommend that ASX provide members with a 1-2 year backtest to understand historical hypothetical DF sizes and changes.</p> <p>In addition, we suggest explicitly stating that AUD is the main currency as the consultation paper only used the dollar symbol (\$) to avoid any ambiguity.</p>
<p>Question 5.2.1: Do you think conducting the 3 dress rehearsals is useful for CPs?</p>	<p>We consider dress rehearsals useful, provided ASX uses them to keep individual CPs updated with detailed impact analysis. This would help ensure CPs understand the implications of the new framework ahead of implementation.</p> <p>Some members questioned the purpose and scope of the three proposed rehearsals and ask for further information on what the dress rehearsals entail.</p> <p>Also, given that most CPs are already familiar with variable default fund mechanisms, three rehearsals may be excessive. However, if ASX believes three are necessary to achieve its objectives, we would have no objection.</p>
<p>Question 5.2.2: Is there other information you would like ASX to consider providing in the CP commitment notice on an ongoing basis?</p>	<p>No comments.</p>

Questions	Feedback
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?	No comments.

Thank you for considering our feedback. If you have any questions, please feel free to contact Ulrich Karl (ukarl@isda.org) and Shule Peh (speh@isda.org) at ISDA.

Your faithfully,

For the International Swaps and Derivatives Association, Inc