



# ASX Participants Margin Obligations

# Introduction

This presentation outlines what ASX considers to be best practice examples of the controls and processes that participants have in place in order to meet their margin settlement requirements. These examples (or where a participant has a process of a similar nature) would be typical of what ASX would look for to determine if a participant has adequate resources and processes in place to meet its ASX margin settlement obligations.

ASX would recommend participants use this guidance to self-assess their processes and determine if there are any identifiable areas for improvement.

This guidance has been divided into five key areas:

- ❖ Resources, controls and processes in place to meet margin settlement deadlines;
- ❖ How participants monitor for matching and settlement of a margin;
- ❖ How any margin issues are escalated;
- ❖ Change management process for margin related changes; and
- ❖ Oversight of offshored margin processes.

# Resources, Controls and Processes to Meet Margin Settlement Deadlines

## Staff Training and Ongoing Coverage

- ❖ New staff members are trained on the participant's ASX margin obligations, provided with on the job training for the margin settlement and escalation processes, and are supervised until such time that they are proficient with the tasks.
- ❖ A skills matrix is used to track the capabilities of team members to ensure adequate daily cover. These are reviewed on a regular basis to identify knowledge gaps, provide additional training, and to form development plans.
- ❖ Performance of the margin process is rotated between team members (for example, monthly) to ensure everyone remains familiar with the process and to ensure there is adequate coverage when a team member is sick/on leave. Margin settlement obligations are also reviewed and discussed by the team on a regular basis.
- ❖ Adhoc training is provided when there is a change to internal procedures or when ASX makes any changes to the participant's margin obligations. Refresher training is provided to the team in response to any breach of the ASX margin rules or where there is an operational incident/issue related to the margin process.

## Margin Procedures

- ❖ ASX margin rule obligations are incorporated into margin procedures.
- ❖ Margin procedures include screenshots from systems used to run the process, for clarity and ease of reference.
- ❖ Escalation process is detailed in the procedures and includes an escalation matrix with the names, positions, and contact details for key contacts as well as backup contacts. This should be considered for both internal contacts and a participant's settlement bank.
- ❖ Margin procedures are reviewed on a regular basis, such as annually or biennially. Margin procedures are also updated on an adhoc basis, for example, where the participant has breached an ASX margin obligation requiring it to make a change to its processes, or when there is a change to its key contacts.

## Primary/Secondary Contacts

- ❖ Participants use a group mailbox as a primary contact for margin issues to ensure there is appropriate coverage at all times.
- ❖ For any non-group mailbox contacts, any changes are immediately provided to ASXMargins@asx.com.au.
- ❖ Contact list is reviewed on a regular basis, such as annually or biennially.

# Resources, Controls and Processes to Meet Margin Settlement Deadlines

## Large or Unexpected Margin Calls

- ❖ To obtain an indication of a large or unexpected margin call, participants monitor market movements and projected settlement obligations. This provides an estimate of magnitude and direction.
- ❖ Potential large or unexpected margin calls are escalated to ensure funding is available for margin settlement to be made in compliance with the ASX Operating Rule requirements.

## Use of Buffers

- ❖ Where a buffer of excess cash is maintained with ASX, participants must ensure that they remain prepared to meet their margin settlement obligations with other appropriate funding. ASX has seen this as an issue for participants historically, where margin settlement obligations have been breached due to a 'set and forget' reliance on buffers for margin settlement and being ill-prepared when buffers are exceeded.
- ❖ Procedures and processes for margin settlements are tested (including penny testing with ASX) on a regular basis to ensure they remain up to date and the participant is prepared for any settlement should a margin exceed the buffer. This is particularly important for any overnight margin settlement obligations.

## Business Contingency Plans

- ❖ Margin obligations are considered a critical business activity and are included in the participants Business Continuity Plan (BCP). The BCP for margin settlements is reviewed, updated and tested on a regular basis, and penny testing is arranged with ASX, as needed.
- ❖ If a participant's automated settlement process fails, a manual process is activated. This could include manually matching in Austraclear for AUD payments (if an Austraclear participant), emailing settlement instructions to the bank, or where available using another internal systems to make settlement.

# Monitoring for Matching and Settlement of Margin

- ❖ Participants monitor the margin settlement's transition from pending, to matched, to settled status. This monitoring is completed regardless of any automated processes and includes pre-set checkpoints for monitoring and escalation. Monitoring will vary depending if a participant is a direct Austraclear participant or if outsourced to an Austraclear Participant, e.g. their bank to make margin settlements.
- ❖ If a margin settlement is required on the morning after a public holiday, the participant should engage with their bank to ensure they are aware of the criticality of a margin settlement vs. other settlements which may have queued after the holiday.
- ❖ Participants have a distribution list set up that includes key staff and management for providing status updates until the payment is settled. Once a participant has obtained confirmation of settlement, the confirmation is provided to the relevant teams with screenshots to evidence.
- ❖ Where margin settlement has been outsourced to another Austraclear participant, secondary checks take place, including checking the bank account to confirm payment has been completed or obtaining a confirmation from the bank.

# Escalation Process for Margins

- ❖ Margin settlement issues are flagged as urgent.
- ❖ Participants have pre-set timelines (before the settlement deadline) where if no settlement confirmation has been received, the escalation process is implemented. Once an issue has been escalated, relevant management staff are informed and monitor the situation.
- ❖ The escalation process includes contacting the bank, if applicable. If determined to be a bank issue, the escalation process includes recurrent follow up calls to the bank, until settlement is made.
- ❖ ASX Margins is contacted promptly to inform them of the issue. The participant will continually provide updates to ASX Margins and will ensure that key contacts remain available should ASX Margins need to contact them.

# Change Management Impacting Margin Settlement

## Preparation

- ❖ For any material change, participants submit a Material Change to Business form on ASX Online and will engage with ASX as required.
- ❖ Any changes to a participant's margin process are managed in accordance with relevant internal policies.
- ❖ Participants ensure that risks associated with proposed changes are appropriately identified, assessed, managed, and documented. Consideration is made, but not limited to, business impact, BCP arrangements, IT security, system support and compliance with ASX rules.
- ❖ The appropriate stakeholders are engaged/consulted, including any offshore teams, if applicable.

## Testing and Sign off

- ❖ Any changes are thoroughly reviewed and tested before moving them into production, including penny testing with ASX, as required, and testing disaster recovery and business continuity arrangements.
- ❖ Compliance, Operations and Risk teams are involved in the review of changes and are included in sign off.

## Procedure Updates and Training

- ❖ Participants undertake a review of procedures, process maps and controls, and any required updates are made.
- ❖ The changes are communicated to the affected parties and training is provided to the relevant teams.

# Oversight of Offshored Margin Processes

- ❖ Participants must ensure that there is round the clock (or follow the sun) coverage for margin processes.
- ❖ The offshored team provides regular reports about the performance of the services.
- ❖ Participants supervise any offshored activities to ensure they comply with the participant's ASX obligations. Regular governance meetings are held between the offshored team and the participant to ensure oversight of any changes or issues.
- ❖ Training provided to offshored staff performing the margin process will cover the participant's ASX margin obligations and escalation processes. Offshored teams treat margin settlements with the highest priority and are dedicated to ensuring margin settlements are made within the required deadlines.
- ❖ Escalation process is well documented and individuals on the contact list are available while the margin processes are being performed.



# RBA CCP Standards and ASX Enforcement

## Reserve Bank of Australia CCP Standards

The Reserve Bank of Australia ('RBA') has determined the Financial Stability Standards ('FSS') for licensed clearing facilities such as ASX Clear and ASX Clear (Futures) ('CCP Standards'). Under Standard 6 of the CCP Standards, the RBA stipulates that central counterparties such as ASX are required to establish and rigorously enforce timelines for margin collections and payments, as well as set appropriate consequences for the failure by participants to pay within the required timeframe.

## ASX Enforcement Activities Relating to Margins

To view ASX Enforcement Notices, please visit:

<https://www.asx.com.au/about/regulation/asx-compliance/enforcement/asx-enforcement-notice>

To view ASX Quarterly Enforcement Circulars (which include warning letters), please visit:

<https://www.asx.com.au/about/regulation/asx-compliance/enforcement/asx-quarterly-enforcement-circulars>

# Disclaimer

This document provides general information only and may be subject to change at any time without notice. ASX Limited (ABN 98 008 624 691) and its related bodies corporate (“ASX”) makes no representation or warranty with respect to the accuracy, reliability or completeness of the information. To the extent permitted by law, ASX and its employees, officers and contractors shall not be liable for any loss or damage arising in any way (including by way of negligence) from or in connection with any information provided or omitted, or from anyone acting or refraining to act in reliance on this information.

© Copyright 2024 ASX Operations Pty Limited ABN 42 004 523 782. All rights reserved 2024.