



ASX RECOVERY RULES

SECTION 2 DEFAULT MANAGEMENT

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SECTION 2 DEFAULT MANAGEMENT

2.1 Default Management

This Rule 2 describes key concepts in connection with the default management powers of the ASX CCP under the ASX CCP Rules.

These concepts are:

- Default and Defaulted Participant
- ASX CCP Loss and Defaulted Participant Assets
- Unmatched Book and Matched Book
- Default Waterfall
- Default Resources, Default Fund and Committed ASX Assets
- Default Period
- Effect on Participant Commitment

2.2 Default and Defaulted Participant

The ASX CCP Rules, supplemented by these Recovery Rules, set out what constitutes a default or event of default in respect of a Participant. These include those set out:

- (a) in rule 15.1 of the ASX Clear Rules as “events of default”, if the ASX CCP is ASX Clear; and
- (b) in rule 71.3 of the ASX Clear (Futures) Rules (as supplemented by rule 6 of the OTC Rules, if applicable) as “events of Default”, if the ASX CCP is ASX Clear (Futures).

Those events, and any events described in these Recovery Rules as constituting an event of default or Default, are referred to in these Recovery Rules as a **Default** and the Participant with respect to whom the Default occurred is referred to as a **Defaulted Participant**.

2.3 ASX CCP Loss and Defaulted Participant Assets

The amount the ASX CCP determines to be the aggregate amount of any loss arising, or suffered by the ASX CCP, in connection with the Default of a Participant (including the amount of any deficiency in the Defaulted Participant’s Accounts) before the application or appropriation of any money, securities, collateral or other property of the Defaulted Participant is referred to as the **ASX CCP Loss**.

The money, securities, collateral and property held by the ASX CCP in any account of, or in respect of, the Defaulted Participant and the money, securities, collateral and property of the Defaulted Participant in respect of which the ASX CCP has any right to apply to discharge an ASX CCP Loss (however described in the ASX CCP Rules), including any Participant Commitment, margin or other amounts provided by the Defaulted Participant or which would otherwise be payable to the Defaulted Participant are referred to as **Defaulted Participant Assets**.

2.4 Unmatched Book and Matched Book

If a Participant is in Default and the ASX CCP has determined that it is exposed to the risk that its payment and delivery obligations to Participants under Contracts will

not be matched by the payments and deliveries made by Participants to it under Contracts, then the ASX CCP is referred to in these Recovery Rules as having an **Unmatched Book** with respect to that Default.

If, following such a determination, the ASX CCP determines that such a risk has been appropriately managed by measures such as (but not limited to) the ASX CCP:

- (a) entering into new Contracts or terminating existing Contracts; and
- (b) transferring obligations; and
- (c) entering into other transactions,

then the ASX CCP is referred to in these Recovery Rules as having restored a **Matched Book** in respect of that Default. The ASX CCP will notify Participants of this determination. However, any failure to provide this notice does not affect whether or not the ASX CCP has restored a Matched Book.

Any determination or notification in respect of the ASX CCP restoring a Matched Book does not affect the ASX CCP's ability to subsequently determine that it has an Unmatched Book.

2.5 Default Waterfall

The order of application of assets specified in:

- (a) rule 8.3.1 of the ASX Clear Rules, if the ASX CCP is ASX Clear; and
- (b) rule 7.1 of the ASX Clear (Futures) Rules, if the ASX CCP is ASX Clear (Futures),

is referred to in these Recovery Rules as the **Default Waterfall**.

2.6 Default Resources, Default Fund and Committed ASX Assets

The assets which are available in accordance with the Default Waterfall to be allocated by the ASX CCP to meet an ASX CCP Loss at any time following a Participant's Default are referred to for the purposes of these Recovery Rules as the **Default Resources** at that time. The Default Resources include, without double counting, any:

- (a) amounts of the Defaulted Participant Assets which are then available;
- (b) amounts of the Participant Commitment of all Participants (including any Defaulted Participants) which are then available;
- (c) amounts committed by the ASX CCP to the Default Waterfall which are, and (if the ASX CCP is ASX Clear) any NGF Amount which is, then available. These are referred to as **Committed ASX Assets**; and
- (d) amounts which are provided by Recovery Assessments which are then available.

However, the Default Resources do not include any:

- (i) amounts paid to the ASX CCP with respect to the termination of Contracts conducted in accordance with Schedules 3 (Partial Termination) or 4 (Complete Termination); or
- (ii) funds, assets or property of the ASX CCP which have not been committed by the ASX CCP to be allocated by the ASX CCP to meet an ASX CCP Loss in accordance with the Default Waterfall.

The part of the Default Resources which is comprised of the available amounts of the Participant Commitment of all Participants (including any Defaulted Participants) and the Committed ASX Assets is referred to as the **Default Fund**.

2.7 Default Period, DMP Completion Date and End Date

Each **Default Period**:

- (a) commences on (and includes) the day the ASX CCP declares that a Default of a Participant has occurred (unless that day falls during an existing Default Period, in which case that existing Default Period continues); and
- (b) concludes on (and includes) the End Date.

The **End Date** is the day which is 22 Business Days after the date (referred to as the **DMP Completion Date**) on which the ASX CCP determines that:

- (i) all ASX CCP Loss with respect to each Participant which has Defaulted during the Default Period has been fully allocated either to the Default Resources at the relevant time or through the exercise of the Recovery Powers; and
- (ii) all default management processes with respect to the Default Period have been completed.

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However, if a Default in respect of another Participant occurs on or before the latest End Date, that End Date is taken not to occur and the existing Default Period continues until paragraph (b) is satisfied in respect of each Default during Default Period.

Following the conclusion of a Default Period in accordance with paragraph (b), a new Default Period will not commence until the occurrence of the next Default (if any) in accordance with paragraph (a).

The ASX CCP will notify Participants of the commencement and the conclusion of each Default Period. However, any failure to provide this notice does not affect the occurrence and continuation of the Default Period.

***Explanatory Note:** A Default Period is the period from the day the ASX CCP declares that a Default of a Participant has occurred to the date which is 22 Business Days (such 22 Business Days period being the “cooling-off period”) after the ASX CCP determines that the ASX CCP Loss arising with respect to that Default has been fully allocated either to the Default Resources at the relevant time or through the exercise of the Recovery Powers and the ASX CCP determines that all default management processes with respect to the Default Period have been completed. However, the period is extended by each Default which occurs during this period. Any declaration by the ASX CCP that a Default of a Participant has occurred will trigger the commencement (or continuation) of a Default Period in accordance with these Recovery Rules.*

2.8 Effect on Participant Commitment

During a Default Period:

- (a) any calculation or re-calculation of a Participant Commitment and the ASX CCP’s right to call additional Participant Commitment; and
- (b) the Participants’ right to withdraw or otherwise request the return, or re-calculation, of Participant Commitment,

are suspended. Except as expressly provided, these Recovery Rules do not otherwise affect a Participant's obligations under the ASX CCP Rules with respect to Participant Commitment.

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