

8 November 2013

Ms Marisa Khan  
Manager, Counterparty Risk Assessment  
ASX Clear Pty Limited  
20 Bridge Street  
Sydney NSW 2000

Dear Ms Khan,

Thank you for the opportunity to provide comments on the ASX Clear's paper, "Consultation on Capital Requirements".

#### **Minimum Core Capital Requirement**

We believe the current minimum core capital requirement of \$5 million for DCPs is appropriate. The introduction of cash market margining, and in particular the requirement that each daily cash market margin be met using the Participant's own funds, has permanently lifted our daily core capital requirement to a level well above \$5 million.

Whilst we recognise that the combined effect of the core capital requirement and cash market margining has substantially mitigated the risk of a Participant failing to meet their daily settlement obligation in the market, it is very difficult for us to identify the benefits of the ASX price reduction associated with the transfer of market supervision when we continue to experience ongoing increases in the cost and complexity of supervision, staying abreast of regulatory change and associated changes to IT systems.

We strongly believe the variable nature of meeting cash market margining, along with the daily cash requirements of operating as a Participant, signifies that any amendment to the minimum core capital requirement (and/or amendments to the logic that determines the cash market margining should those amendments result in a higher daily cash requirement), will place a further unnecessary cash flow strain on existing Participants.

#### **Tiered Minimum Core Capital Requirements for General Clearing Participants**

We believe a broad tiering structure is too simple and will itself be a barrier to our firm considering any future opportunities to provide third party clearing services. Should such an opportunity arise, the first question to be addressed will be "Will the additional profit we estimate we will earn from providing the third party clearing service be sufficient to offset the cost of tying-up an additional \$5m in capital?"

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Given the extensive work performed to date by the ASX on cash market margining, we believe the ASX is capable of determining the marginal impact on a Participant's core capital requirements that would arise as a result of that Participant providing another Participant with third party clearing services. We also expect this to result in a 'zero sum' impact whereby the 'delivering' Participant's core capital requirement would reduce in line with the increase to the 'receiving' Participant.

Notwithstanding, we continue to compete with low cost, shadow brokers who are not subject to the same core capital requirements and financial disclosure regime as participants, and who stand in the shadow of the core capital requirements of their clearing participant. We believe a number of these brokers present a real risk to the market (in terms of failure to settle) and the concentration of these brokers in terms of clearing through a small number of participants further serves to magnify this risk.

The minimum core capital requirement and financial disclosure requirements to provide clearing services for these shadow brokers should more appropriately reflect this risk to the market.

Yours sincerely

A handwritten signature in black ink, appearing to be 'JO', with a horizontal line extending to the right from the bottom of the letters.

**JEFFREY OATES**  
Chief Financial Officer  
Morgans Financial Limited