MANAGING LIQUIDITY REQUIREMENTS

The purpose of this Guidance Note	• To provide guidance to participants on the minimum liquidity management arrangements they should have in place to meet their obligations under the ASX Clear Operating Rules
The main points it covers	• The requirement for participants generally to have a formal liquidity risk framework in place that is appropriate to the nature, scale and complexity of their activities • The requirement for a participant to have a nominated officer responsible for liquidity management • The requirements for a board-approved annual liquidity plan which considers both “normal” and “stress” conditions and robust liquidity-related operational processes and management reporting • The different expectations of ADIs and related bodies corporate of ADIs
Related materials you should read	• Guidance Note 1 *Admission as a Participant* • Guidance Note 8 *Notification Obligations*

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Table of contents

1. Introduction 2
2. General requirements for participants that are not ADIs or a related body corporate of an ADI 2
3. General requirements for ADIs 3
4. General requirements for a related body corporate of an ADI 3
5. Minimum liquidity management requirements 3
5.1 Nominated officer responsible for liquidity management 3
5.2 Twelve month liquidity plan 4
5.3 Segregation of duties 4
5.4 Management reporting 4
5.5 Operational processes 5

1. Introduction

This Guidance Note is published by ASX Clear Pty Limited (ASX) to provide guidance to participants on the minimum liquidity management arrangements they should have in place to meet their obligations under the ASX Clear Operating Rules.

Under those rules, a participant is required to have adequate resources and processes, including financial resources and management supervision processes, to comply with its obligations as a participant under the ASX Clear Operating Rules.[1]

Notwithstanding the guidance provided in this note, it should be noted that the ultimate responsibility for a clearing participant's liquidity management lies with its board, as part of its general law obligations to exercise due care and skill and not to engage in insolvent trading.

2. General requirements for participants that are not ADIs or a related body corporate of an ADI

A participant that is not an authorised deposit-taking institution (ADI[2]) or a related body corporate[3] of an ADI that is covered by the ADI's liquidity risk management framework should have a formal liquidity risk management framework in place which:

- is appropriate for the nature, scale and complexity of the participant's activities (including, where the participant carries on other activities in addition to its activities as a participant, those other activities);
- documents all key systems, processes and procedures for liquidity management[4] and ensures that the documentation is kept up-to-date;
- identifies the governance arrangements, and in particular the respective roles of the board, CEO, CFO and treasurer, in relation to liquidity management; and
- at a minimum, satisfies the expectations set out in section 5 of this Guidance Note.

[1] ASX Clear Operating Rules 3.2.1(e), 3.5.1 and 4.1.1(a). For these purposes, "resources" include financial, technological and human resources and "processes" include management supervision, training, compliance, risk management, business continuity and disaster recovery processes.

[2] "ADI" is defined in ASX Clear Operating Rule 2.10.1 to mean an Authorised Deposit-Taking Institution that has been granted an authority to carry on banking business in Australia under the Banking Act 1959.

[3] "Related body corporate" has the same meaning as in ASX Clear Operating Rule 2.10.1.

[4] This includes, but is not limited to, the controls the participant has instituted to control its liquidity exposures such as trading limits for clients and principal trading and exposure limits for underwriting and sub-underwriting commitments.

3. General requirements for ADIs

Participants that are ADIs are subject to prudential regulation by the Australian Prudential Regulation Authority (APRA) and, as such, are required by APRA to have adequate liquidity arrangements in place to meet all of their obligations, whether in their capacity as an ADI or otherwise.

ASX recognises the regulatory framework administered by APRA and does not expect an ADI (including, for the avoidance of doubt, Australian branches of foreign banks that are ADIs) to have any additional liquidity arrangements in place, over and above those required by APRA to manage the liquidity risk of its activities generally.

4. General requirements for a related body corporate of an ADI

A participant that is a related body corporate of, but not itself, an ADI is not subject to the full rigours of APRA's prudential regulation. It is not uncommon, however, for a related body corporate of an ADI to have its liquidity requirements provided and managed by the ADI.

Where an ADI has a liquidity management framework that is implemented on an aggregate group or country level, then a participant that is a related body corporate of the ADI and included within that framework may rely on that framework as meeting the requirements of this guidance note, provided:

- the ADI is responsible for managing the participant's liquidity requirements;
- substantially all of the participant's liquidity requirements are provided by the ADI;
- senior management or the board of the participant have sufficient information available to them to be satisfied that the participant's ongoing liquidity requirements will be met by the ADI, including receiving appropriate reports about the participant's liquidity position as considered necessary; and
- if at any stage the senior management or board of the participant have concerns about whether the ADI's liquidity management arrangements are adequate to meet the liquidity requirements of the participant, they are able to escalate that issue within the ADI.

Otherwise, a participant that is a related body corporate of, but not itself, an ADI must meet the minimum liquidity management requirements set out in sections 2 and 5 of this Guidance Note.

5. Minimum liquidity management requirements

5.1 Nominated officer responsible for liquidity management

The overall responsibility for liquidity management within a participant must be allocated to a nominated officer (effectively the "treasurer" of the participant) who:

- is responsible for overseeing:
  - the initial preparation and updating of the participant's twelve month liquidity plan (see section 5.2 below); and
  - the day-to-day operational management of the participant's liquidity (although not for settlement, reporting or bank reconciliations – see section 5.3 below);
- has the requisite experience and qualifications to manage liquidity risk; and
- will act as ASX's first point of contact for discussions related to the participant's liquidity risk management.

These responsibilities should be reflected in the formal job description of the nominated officer.

ASX should be advised of the appointment or any subsequent departure of the nominated officer.

5.2 Twelve month liquidity plan

A participant must have in place a liquidity plan that covers at least the following 12 months and that:

- identifies the liquidity requirements[5] likely to arise over the next 12 months under both "normal" and "stress" conditions (including, where the participant carries on other activities in addition to its activities as a participant, in relation to those other activities);
- identifies the funds available to the participant to meet its liquidity requirements, addressing in particular:
  - any requirements that need to be met to have access to those funds[6] or any restrictions on the use of those funds;
  - the certainty and timeliness of access to those funds (in both normal and stress conditions); and
  - how client and non-client monies are segregated and the extent to which client monies are able to be used to meet the liquidity requirements of the participant;
- explains how the participant has defined "normal" and "stress" conditions (in the latter case, ASX's expectation is that liquidity plan should address participant-specific, customer-specific and general market stress conditions):
- sets out the key assumptions made in the plan; and
- sets out the key risks to achieving the plan and how these risks are to be managed or mitigated.

The nominated officer responsible for liquidity management should review the plan at the end of each quarter and extend it for an additional quarter.

The liquidity plan should be based on, and consistent with, the participant's current business strategy and business plan and its current financial circumstances. If there is a change to the participant's business strategy, business plan or financial circumstances, the nominated officer responsible for liquidity management should review the plan to ensure that it remains current and effective.

The plan should be reviewed and approved by the participant's board at least annually and whenever there is a material change in the participant's business strategy, business plan or financial circumstances.

5.3 Segregation of duties

There must be an appropriate segregation of duties between those managing liquidity and those:

- settling transactions and moving funds (typically an operations/settlements function);
- recording and extracting the data used for management reporting on liquidity requirements and the funds available to meet those requirements (typically a finance function); or
- performing bank reconciliations.

5.4 Management reporting

The participant must have management information systems and reporting arrangements that provide the board and senior management with current and forward-looking information on the liquidity position of the participant that is accurate, appropriate and timely.

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5 The sources of the liquidity requirement should be specified within the liquidity plan at an appropriately detailed level – e.g. where a participant uses a service company, expenses that are recharged to the participant should be disclosed according to their nature and not combined as a single cash outflow line of management/service fees paid to associated entities.

6 For example where the participant is relying on a subordinated debt facility, the use of that facility will require approval from ASX.

At a minimum this should include:

- a quarterly "Sources and Uses of Funds" report to senior management and the board of the participant, with an analysis of any material variances to the liquidity plan;
- a quarterly report to senior management and the board of the participant on the participant's current and forecast liquidity positions over the next 12 months, again with an analysis of any material variances to the liquidity plan; and
- a set of early warning indicators to alert senior management and the board of potential issues in meeting operational liquidity requirements.

5.5 Operational processes

The following operational processes should be maintained:

- daily forecasting of liquidity over at least the next 5 business days, with forecasting based on normal and stress assumptions (as set out in the liquidity plan) and factoring in all of the participant's liquidity requirements;[7]
- clear and documented escalation procedures and delegations of authority to deal with liquidity issues; and
- daily reconciliation of all bank accounts (both trust and general) to verify funding availability.

[7] This should include, but not be limited to, normal ASX settlement and margin obligations, possible additional margin calls to meet capital-based position limits or stress test exposure limits; exposures arising from principal trading; underwriting and sub-underwriting commitments, and any other liquidity requirements arising from the participant's non-ASX activities