

## SCHEDULE 1 RISK BASED CAPITAL REQUIREMENTS

This schedule sets out the Risk Based Capital Requirements for the purposes of Rule 5.1. A Participant subject to the Risk Based Capital Requirements must comply with this schedule.

### S1.1

#### S1.1.1 Definitions and Interpretation

In Rule S1, unless the context otherwise requires:

**“Approved Deposit Taking Institution”** means:

- (a) an authorised deposit taking institution under section 5 of the Banking Act 1959 (Cth);
- (b) a banking institution which has its activities formally regulated in accordance with the standards of the Basel Committee on Banking Supervision; or
- (c) an institution which has been given a risk weighting by the Australian Prudential Regulation Authority equivalent to an authorised deposit taking institution referred to in paragraph (a) above.

Amended 15/12/17

**“Approved Institution”** means:

- (a) any of the following institutions whose net assets are greater than \$30 million at the date of its last published audited balance sheet (or other documentation approved by ASX Clear):
  - (i) a life insurance company or general insurance company; or
  - (ii) an investment company, trust or other similar institution whose ordinary business is to buy and sell Financial Instruments;
- (b) any body corporate or partnership whose ordinary business is to buy and sell Financial Instruments and which is regulated by a:
  - (i) Recognised non-European Union Regulator specified in Table 3.1, Annexure 5;
  - (ii) Recognised European Union Regulator specified in Table 3.2, Annexure 5; or
- (c) any other body corporate or partnership approved by ASX Clear,

provided that on request by ASX Clear, the Participant makes available documentation in support of paragraphs (a), (b) or (c) and ASX Clear is satisfied that the documentation provided is adequate for this purpose.

**“Approved Subordinated Debt”** means an amount owing by a Participant under a subordination arrangement which is approved by ASX Clear under Rule S1.2.4.

**“Approved Subordinated Loan Deed”** means, in respect of a subordination arrangement, a deed which:

- (a) is executed:
  - (i) by the lender and ASX Clear under seal or by such equivalent method expressly recognised under the Corporations Act (or in the case of ASX Clear, on behalf of ASX Clear by its attorney, delegate or sub-delegate); and
  - (ii) in the case of a Participant which is a company, by the Participant under seal or by such equivalent method expressly recognised under the Corporations Act;
- (b) sets out details of the terms governing any subordinated debt regulated by the subordination arrangement or identifies the document which does so;
- (c) contains those provisions required by ASX Clear including without limitation, provisions to the effect that:
  - (i) alterations to the subordinated loan deed or the terms or details of any subordinated debt regulated by the subordination arrangement cannot be made unless the agreement of all parties is obtained and the variation is executed in the manner required under paragraph (a);
  - (ii) ASX Clear must be satisfied that the Participant has made adequate arrangements to ensure that Rule S1 will be complied with and will continue to be complied with upon the maturity date of any loan for a fixed term;
  - (iii) ASX Clear must be given full particulars of any debt to be regulated by the subordination arrangement under the subordinated loan deed prior to such debt being created; and
  - (iv) prior to the Bankruptcy of the Participant, repayment of any subordinated debt regulated by the subordination arrangement can only occur in accordance with Rule S1.2.4(6) and (7); and
- (d) contains specific acknowledgment by the lender of the matters set out in Rule S1.2.4(2)(a) and (b).

Amended 15/06/15

**“Bankruptcy”** means in respect of an entity:

- (a) the entity becomes an externally administered body-corporate within the meaning of the Corporations Act;
- (b) the entity becomes an individual who is an insolvent under administration within the meaning of the Corporations Act;
- (c) if the entity is a partnership, the entity is wound up or dissolved or a liquidator is appointed to it;
- (d) a person takes control of the entity's property for the benefit of the entity's creditors because the entity is, or is likely to become, insolvent;
- (e) the entity enters into an arrangement, composition or compromise with, or assignment for the benefit of, all of its creditors or any class of them; or
- (f) anything analogous to, or having a substantially similar effect to the events specified in paragraphs (a) to (e) happens under the laws of any applicable jurisdiction.

**“Base Core Capital Requirement”** means the amount specified in Rule S1.2.1(i)(b)(i) (Table A or Table B), as applicable.

Introduced 15/12/17

**“Client Balance”** means an individual Counterparty's net debit or credit balance with a Participant arising from non margined Financial Instruments.

**“Core Capital”** means the sum of:

- (a) all ordinary issued shares to the extent that those shares are paid-up;
- (b) all non cumulative Preference Shares;
- (c) all reserves, excluding revaluation reserves other than Financial Asset and Liability Revaluation Reserves; and
- (d) opening retained profits/losses adjusted for all current year movements.

Amended 01/01/10, 15/06/15, 01/01/18

**“Counterparty”** means in respect of a transaction to which a Participant is a party, another party to that transaction whether that person is a counterparty or a client.

**“Counterparty Risk Requirement”** means the greater of:

- (a) zero; and
- (b) the absolute sum of the counterparty risk amounts calculated in accordance with Annexure 1 less any provision raised for doubtful debts.

**“Debt Derivative”** includes:

- (a) a convertible note (except to the extent that Annexure 3 provides for the treatment of a convertible note as an equity position);

- (b) an interest rate Swap;
- (c) a Forward Rate Agreement;
- (d) a forward contract over a Debt Instrument;
- (e) a Future over a Debt Instrument and a Future over an index or basket product based on Debt Instruments;
- (f) an index or basket product based on Debt Instruments;
- (g) an Option over a Debt Instrument and an Option over any of the products referred to in paragraphs (a) to (f); and
- (h) an instrument whose value is derived from a Debt Instrument and which is prescribed as such by ASX Clear,

but does not include an instrument prescribed as an Equity Derivative or Foreign Exchange Derivative by ASX Clear.

**“Debt Equivalent”** means the value of a position in a Debt Derivative that is equivalent to the value had it been a physical position in the underlying Debt Instrument calculated in accordance with clause 16 of Annexure 3.

**“Debt Instrument”** includes:

- (a) a debt security without call or put provisions;
- (b) a discount security without call or put provisions;
- (c) a non-convertible preference share;
- (d) a redeemable preference share with a fixed and certain date for redemption;
- (e) an interest in a managed investment scheme investing only in Debt Instruments, mortgages or cash;
- (f) a depository receipt (including a depository interest) representing a unit of beneficial interest in any of the instruments referred to in (a) to (e); and
- (g) an instrument prescribed as such by ASX Clear,

but does not include an instrument prescribed as an Equity by ASX Clear.

*Amended 21/05/13*

**“Debt Net Position”** means an amount calculated in accordance with Annexure 3 clause 17.

**“Derivative”** includes:

- (a) an Equity Derivative;
- (b) a Debt Derivative;

- (c) a Foreign Exchange Derivative; and
- (d) an instrument prescribed as such by ASX Clear,

but does not include an instrument prescribed as an Equity or Debt Instrument by ASX Clear.

**“Equity”** includes:

- (a) a share other than a share referred to in paragraphs (c) and (d) of the definition of Debt Instrument;
- (b) a depository receipt (including a depository interest) other than a depository receipt referred to in paragraph (f) of the definition of Debt Instrument;
- (c) an instalment receipt;
- (d) an interest in a managed investment scheme other than an interest referred to in paragraph (e) of the definition of Debt Instrument;
- (e) an instrument prescribed as such by ASX Clear,

but does not include an instrument prescribed as a Debt Instrument by ASX Clear.

Amended 21/05/13

**“Equity Derivative”** includes:

- (a) an equity Swap;
- (b) a forward contract over an Equity;
- (c) a Future over an Equity and a Future over a basket or index product based on Equities;
- (d) an index or basket product based on Equities;
- (e) a renounceable or non-renounceable right to subscribe for an equity;
- (f) an Option over an Equity (whether issued or unissued) and an Option over any of the products referred to in paragraphs (a) to (d); and
- (g) an instrument whose value is derived from an Equity and which is prescribed as such by ASX Clear,

but does not include an instrument prescribed as Debt Derivative or a Foreign Exchange Derivative by ASX Clear.

**“Equity Equivalent”** means the value of a position calculated in accordance with clause 8 of Annexure 3.

**“Equity Net Position”** means an amount calculated in accordance with clause 9 of Annexure 3.

**“Excluded Asset”** means:

- (a) a fixed asset;
- (b) an intangible asset;
- (c) a future income tax benefit;
- (d) a non current asset;
- (e) a deposit with or loan to a person other than:
  - (i) a deposit or loan with an Approved Deposit Taking Institution;
  - (ii) a deposit or loan to the extent the balance is secured by collateral which is Liquid, evidenced in writing and valued at the mark to market value or at another value approved by ASX Clear; or
  - (iii) a deposit of funds as a margin or deposit with a person licensed to trade Futures or Options to the extent that those funds relate to an open position;
  - (iv) funds deposited with ASX Clear as margin or as Excess Cash; or
  - (v) funds deposited with ASX Clear (Futures) Pty Limited as margin or excess deposits;
- (f) a deposit with a third party clearing organisation, unless approved otherwise by ASX Clear;
- (g) a Related/Associated Persons Balance to the extent the balance is not secured by collateral which is Liquid, evidenced in writing and valued at the mark to market value or at another value approved by ASX Clear;
- (h) a debt which was reported or created more than 30 days previously other than a debt which is secured by collateral which is Liquid, evidenced in writing and valued at the mark to market value or at another value approved by ASX Clear;
- (i) a prepayment which is not Liquid;
- (j) an asset which is not Liquid;
- (k) an asset which is Liquid but which has a charge against it (in whole or in part) where the purpose of the charge is to raise funds for use outside the ordinary course of the Participant’s securities or derivatives business; and
- (l) an asset prescribed as such by ASX Clear.

Amended 07/06/13

**“Excluded Liability”** means:

- (a) the maximum liability specified in a guarantee or indemnity under Rule 51.2.6(1)(c); and

- (b) any other liability prescribed as such by ASX Clear.

**“Family Trust”** means a trust in which:

- (a) the person or the Immediate Family of the person is the sole or majority beneficiary; or
- (b) the person has the ability to remove the trustee of the trust and replace the trustee with his or her own nominee.

**“Financial Asset and Liability Revaluation Reserves”** means revaluation reserves relating to financial assets and financial liabilities revalued at fair value through other comprehensive income as defined in accordance with accounting standards which are generally accepted in Australia or other accounting standards approved or prescribed by ASX Clear under Rule Si.2.7(2).

Introduced 01/01/10 Amended 01/01/18

**“Financial Instrument”** means:

- (a) an Equity;
- (b) a Debt Instrument;
- (c) a Derivative; and
- (d) any other instrument prescribed as such by ASX Clear.

**“Foreign Exchange Derivative”** includes:

- (a) a forward contract over foreign currency;
- (b) a Future over foreign currency;
- (c) an Option over foreign currency; and
- (d) an instrument whose value is derived from a foreign currency and which is prescribed as such by ASX Clear,

but does not include an instrument prescribed as an Equity Derivative or Debt Derivative by ASX Clear.

**“Foreign Exchange Equivalent”** means the value of a position calculated in accordance with clause 21 of Annexure 3.

**“Forward Rate Agreement”** means an agreement in which two parties agree that:

- (a) one party will make payments to the other of an amount of interest based on an agreed interest rate for a specified period from a specified date applied to an agreed principal amount;
- (b) no commitment is made by either party to lend or borrow the principal amount; and

- (c) the exposure is limited to the interest difference between the agreed and actual market rates at settlement.

**“Free Delivery”** means a trade where delivery of the Financial Instrument is made to a Counterparty without receiving payment or where a payment is made without receiving a Financial Instrument.

**“Future”** means a contract which is traded on an exchange, subject to a Primary Margin Requirement and which is:

- (a) a contract to make an adjustment between the parties on an agreed future date as to the value on that date of an interest rate, a foreign currency, an Equity, basket or index, or some other agreed factor;
- (b) a deliverable bond futures contract or deliverable share futures contract; or
- (c) an instrument prescribed as such by ASX Clear.

**“Government Debt Instrument”** means any form of government financial instrument including a bond, treasury note or other short term instrument, and a Debt Derivative of any of those instruments where:

- (a) it is issued by, fully guaranteed by, or fully collateralised by a Debt Instrument issued by:
  - (i) the Australian Commonwealth, State (including Territories) governments; or
  - (ii) a central government or central bank within the OECD; or
- (b) it is issued by, or fully guaranteed by, a non-OECD country central government or central bank, has a residual maturity of one year or less and is denominated in local currency and funded by liabilities in the same currency.

Amended 21/05/13

**“Group of Connected Persons”** means two or more persons or entities where:

- (a) each person or entity is a Related/Associated Person of each other person or entity; or
- (b) the persons who have control of the management of each entity or have been appointed as directors of each entity are substantially the same.

**“Immediate Family”** in relation to a person means that person’s spouse and any non-adult children.

**“In the Money”** means:

- (a) in relation to call Options, that the current market price of the underlying instrument is greater than the exercise price; and
- (b) in relation to put Options, that the current market price of the underlying instrument is less than the exercise price.



**“Large Exposure Risk Requirement”** is the absolute sum of a Participant’s:

- (a) counterparty large exposure risk amount calculated in accordance with Annexure 2; and
- (b) issuer large exposure risk amount calculated in accordance with Annexure 2.

**“Liquid”** means realisable or otherwise convertible to cash within 31 days, or prescribed as liquid by ASX Clear.

Amended 13/11/17

**“Liquid Capital”** means the sum of:

- (a) Core Capital;
- (b) cumulative Preference Shares;
- (c) Approved Subordinated Debt; and
- (d) revaluation reserves other than Financial Asset and Liability Revaluation Reserves;

less the sum of:

- (e) Excluded Assets;
- (f) Excluded Liabilities.

Amended 01/01/10, 01/01/18

**“Liquid Margin”** means the amount calculated by deducting the Total Risk Requirement amount from the amount of Liquid Capital.

**“Market Spot Exchange Rate”** means the closing rate of exchange for foreign currencies against Australian dollars on each Business Day, having a settlement period of 2 days.

**“Non-Standard Risk Requirement”** means the amount calculated in accordance with Rule S1.2.9 to cover unusual or non-standard exposures.

**“Operational Risk Requirement”** means the amount calculated in accordance with Rule S1.2.3(1) which is required to cover exposures associated with commencing and remaining in business arising separately from exposures covered by other risk requirements.

**“Option”** means a contract which gives the holder the option or right, exercisable at or before a specified time to:

- (a) buy (whether by way of issue or transfer) or sell a quantity of a Financial Instrument or a foreign currency; or
- (b) be paid an amount of money calculated by reference to the value of a Financial Instrument, foreign currency or index as specified in the contract.

**“OTC Derivative”** means a Derivative, other than a Derivatives CCP Contract resulting from the registration of an OTC Options Market Transaction, which is not traded on an exchange.

Amended 28/05/12

**“Position Risk Factors”** are the percentages applied to principal positions as specified in Tables 1.1, 1.2, 1.3 and 1.7 of Annexure 5.

**“Position Risk Requirement”** is the absolute sum of the position risk amounts for a Participant’s:

- (a) (i) Equity and Equity Derivative positions calculated in accordance with Part 1 of Annexure 3;
- (ii) Debt Instrument and Debt Derivative positions calculated in accordance with Part 2 of Annexure 3; and
- (iii) foreign exchange and Foreign Exchange Derivative positions calculated in accordance with Part 3 of Annexure 3; or
- (b) principal positions for all of the above plus commodity positions (if any), calculated in accordance with Part 4 of Annexure 3; or
- (c) principal positions for all of the above plus commodity positions (if any), calculated in accordance with a combination of any of Parts 1, 2, 3 and 4 of Annexure 3.

**“Positive Credit Exposure”** means an exposure to a Counterparty such that if the Counterparty were to default on its obligations under:

- (a) an individual transaction; or
- (b) to the extent allowed by Rule S1, a group of transactions, contracts, arrangements or agreements,

the Participant may incur a financial loss.

**“Preference Share”** means a preference share that is redeemable solely at the request of the Participant.

**“Primary Margin Requirement”** means the amount which a Participant lodges or is notionally required to lodge as a deposit to cover potential daily worse case price movements in the relevant market, lodged in accordance with the rules of an exchange or clearing house against open positions registered in the name of the Participant on the exchange or clearing house.

**“Qualifying Debt Instruments”** means Debt Instruments that are:

- (a) rated investment grade by at least two of the credit rating agencies recognised by the Australian Prudential Regulation Authority and specified in Table 1.5, Annexure 5;

- (b) rated investment grade by one credit rating agency recognised by the Australian Prudential Regulation Authority and specified in Table 1.5, Annexure 5, and the issuer has its ordinary shares included in a Recognised Market Index;
- (c) unrated but the Issuer of the Debt Instrument has its ordinary shares included in a Recognised Market Index and, in accordance with a policy agreed between ASX Clear and the Participant, the Debt Instruments are reasonably deemed by the Participant to be of comparable investment quality to one or more of the categories of Qualifying Debt Instrument as described in this definition;
- (d) issued by, or guaranteed by, Australian local governments and Australian public sector entities other than those which have corporate status or operate on a commercial basis;
- (e) issued by, or fully guaranteed by, a non-OECD country's central government and central bank and which have a residual maturity of over one year and are denominated in local currency and funded by liabilities in the same currency;
- (f) issued by or collateralised by claims on, an international agency or regional development bank including the International Monetary Fund, the International Bank for Reconstruction and Development, the Bank for International Settlements and the Asian Development Bank;
- (g) issued, guaranteed, first endorsed or accepted by an Australian ADI or a bank incorporated within the OECD or a non OECD bank accorded the same credit risk weight as an OECD bank by the Australian Prudential Regulation Authority provided that such instruments do not qualify as capital of the issuing institution;
- (h) issued, guaranteed, endorsed or accepted by a non-OECD bank and which have a residual maturity of one year or less provided that such instruments do not qualify as capital of the issuing institution; or
- (i) issued by or guaranteed by OECD country, State and regional governments and OECD public sector entities.

**“Recognised Market Index”** means an index specified in Table 1.6 of Annexure 5.

**“Related/Associated Person”** means:

- (a) a partner, director, employee, officer or consultant of a Participant or of a company which is a partner of a Participant;
- (b) a person who is a member of the Immediate Family of a person referred to in paragraph (a);
- (c) the trustee of a Family Trust of a person referred to in paragraph (a);
- (d) an entity which is:
  - (i) controlled by a person referred to in paragraphs (a), (b) or (c) or any of those persons acting together;

- (ii) a corporation in which a person referred to in paragraphs (a) or (b) is beneficially entitled to more than 50% of the issued capital;
- (e) an entity which is the holding company, or which is controlled by the holding company, of a Participant or of a company which is a partner of a Participant;
- (f) a person who is a Substantial holder of a Participant or of a company which is a partner of a Participant;
- (g) an associate of a Participant (as defined in each section of Part 1.2 Division 2 of the Corporations Act) or of a company which is a partner of a Participant; and
- (h) a lender who is a party to an Approved Subordinated Loan Deed or a related entity or associate of that lender.

**“Related/Associated Person Balance”** is an amount owing to the Participant by a person who is a Related/Associated Person of the Participant excluding an amount owing as a result of:

- (a) the deposit with, loans to or other amounts owing from an Approved Deposit Taking Institution;
- (b) the deposit of funds as a margin or deposit with a person licensed to trade Futures or Options to the extent that those funds relate to an open position; or
- (c) a transaction in a Financial Instrument under Annexure 1 which is made on terms no more favourable to the Related/Associated Person than those on which it would be reasonable to expect the Participant to make if it had entered into the transaction on an arms length basis, but not including sundry fees, interest or similar amounts owing on such transactions; or
- (d) brokerage or similar amounts owing that were reported or created less than 30 days previously and which arose as a result of a third party clearing arrangement entered in to with another Participant,

unless ASX Clear considers that an amount owing under paragraph (a), (b), (c) or (d) is to be included as a Related/Associated Person Balance.

**“Secondary Requirement”** means a capital amount imposed under Rule S1.3.3.

**“Securities Lending and Borrowing”** means any transaction undertaken by a Participant under an Equity or Debt Instrument lending or borrowing agreement, a repurchase or reverse repurchase agreement or an agreement for the sale and buyback of Equity or Debt Instruments or other similar agreement as prescribed by ASX Clear.

**“Substantial holder”** means a person who has or would have a substantial holding if Part 6C of the Corporations Act applied to that corporation.

**“Swap”** means a transaction in which two counterparties agree to exchange streams of payments over time on a predetermined basis.

**“Total Risk Requirement”** means the sum of:

- (a) Operational Risk Requirement;
- (b) Counterparty Risk Requirement;
- (c) Large Exposure Risk Requirement;
- (d) Position Risk Requirement;
- (e) Underwriting Risk Requirement; and
- (f) Non-Standard Risk Requirement,

however where an asset or liability is an Excluded Asset or Excluded Liability a risk requirement otherwise applicable under paragraphs (a) to (e) is not included.

“**Trading Book**” means all of a Participant’s principal positions for which a position risk amount is calculated under the internal models approach of Part 4 of Annexure 3.

“**Trading Day**” means a day on which a relevant exchange traded or over the counter market has been open for trading.

“**Underwriting**” means a commitment to take up Equity or Debt Instruments where others do not acquire or retain them under an underwriting agreement, sub underwriting agreement, or other similar agreement calculated using:

- (a) the price stated in the Underwriting agreement; or
- (b) in the case of new float where the price is not known, the indicative price, until the price is known.

“**Underwriting Risk Requirement**” is the absolute sum of the risk amounts calculated in accordance with Annexure 4.

*Note: Other terms in this Schedule are defined in Section 2*

Introduced 11/03/04

### **S1.1.2 Interpretation**

- (i) Rule S1 must be interpreted and applied:
  - (a) in accordance with its spirit, intention and purpose;
  - (b) by looking beyond form to substance;
  - (c) consistently across positions in the same Financial Instruments throughout a period covered by a return required under Rule S1;
  - (d) consistently with any guidance notes or other interpretation issued by ASX Clear; and
  - (e) for the purpose of calculating capital liquidity requirements only and so as not to detract from the operation of other Rules.

- (2) A Participant's compliance with Rule S1.2.1 will be assessed using the methods chosen by it and recognised under Rule S1.
- (3) The annexures to Rule S1 form part of Rule S1 and:
- (a) a reference to an annexure is a reference to an annexure of Rule S1;
  - (b) a reference to a clause is a reference to a clause of an annexure;
  - (c) a clause within an annexure which refers to another clause is taken to refer to a clause within the same annexure unless expressly stated otherwise; and
  - (d) a clause within an annexure which refers to a Table is taken to refer to a Table within the same annexure unless expressly stated otherwise.
- (4) References to dollar amounts are references to Australian dollar amounts.

## S1.2 OBLIGATIONS OF PARTICIPANTS

### S1.2.1 Core Capital, Liquid Capital and Total Risk Requirement

- (1) Unless a Participant obtains a prior waiver from ASX Clear under Rule 1.6, it must ensure that its:
- (a) Liquid Capital is at all times greater than its Total Risk Requirement; and
  - (b) Core Capital is at all times not less than the sum of the amounts specified in Rules S1.2.1(1)(b)(i) (Table A or Table B), (ii), (iii) and (iv) below as applicable:

(i)

Table A – Direct Participants – Base Core Capital Requirement	
	\$5,000,000

Table B – General Participants – Base Core Capital Requirement		
Tier 1	\$5,000,000	Clearing for itself <u>or</u> up to one External.
Tier 2	\$10,000,000	Clearing for: <ul style="list-style-type: none"> <li>• itself and one External, or</li> <li>• two Externals.</li> </ul>
Tier 3	\$15,000,000	Clearing for: <ul style="list-style-type: none"> <li>• itself and two Externals, or</li> <li>• three Externals.</li> </ul>
Tier 4	\$20,000,000	Clearing for: <ul style="list-style-type: none"> <li>• itself and three or more Externals, or</li> <li>• four or more Externals.</li> </ul>

In Table B above, "External" means another Participant or a Market Participant.

- (ii) for a Participant undertaking client written options clearing other than for which specific Cover is lodged, as described in the Procedures, which ASX Clear has determined:
  - A. to be de minimis - \$0;
  - B. not to be de minimis or material - \$2,500,000;
  - C. to be material - \$5,000,000.
- (iii) for a Participant undertaking own account business, as described in the Procedures, which ASX Clear has determined:
  - A. to be de minimis - \$0;
  - B. not to be de minimis or material - \$2,500,000;
  - C. to be material - \$5,000,000.
- (iv) for a Participant undertaking non-ASX client activity, as described in the Procedures, which ASX Clear has determined:
  - A. to be de minimis - \$0;
  - B. not to be de minimis or material - \$2,500,000;
  - C. to be material - \$5,000,000.

(2) For the purpose of Rules S1.2.1(1)(b)(ii), (iii) and (iv):

- (a) the amounts under those Rules will not apply to Participants determined by ASX Clear to be inactive;
- (b) the amount of Core Capital required in respect of a Participant under those Rules will be assessed quarterly by ASX Clear (or at such other time at ASX Clear's discretion);
- (c) where, as a result of an assessment referred to in paragraph (b) above, ASX Clear determines that additional Core Capital is required in respect of a Participant under those Rules, the Participant will have until the date specified in the notice provided to the Participant of the additional Core Capital required to ensure that its Core Capital complies with such additional requirement. Subject to paragraph (d) below, ASX Clear will give not less than 6 months' notice of such additional requirement.
- (d) in the event a Participant fails to lodge, in accordance with Rule S1.2.10(2), a return relevant to the assessment referred to in paragraph (b) above, ASX may give less than 6 months' notice of any additional Core Capital required.

- (3) For the purpose of making a determination on materiality pursuant to Rule S1.2.1(1)(b)(iii)(C) and Rule S1.2.1(1)(b)(iv)(C), ASX Clear may rely on any self-declaration of materiality provided by the Participant.

Introduced 11/03/04 Amended 01/01/09, 01/01/10, 01/01/12, 01/08/14, 13/11/17, 15/12/17

### **S1.2.2 Notifying ASX Clear**

- (1) A Participant must notify ASX Clear immediately if its:
- (a) Core Capital is at any time less than the minimum amount required by Rule S1.2.1(1)(b); or
  - (b) Liquid Capital divided by its Total Risk Requirement is equal to or falls below 1.2.
- (2) A Participant must provide ASX Clear with a return in the form prescribed by ASX Clear disclosing the amount of its Liquid Margin:
- (a) no later than one Business Day after notifying ASX Clear under Rule S1.2.2(1); and
  - (b) from then on, either:
    - (i) weekly, for so long as the amount referred to in Rule S1.2.2(1)(b) is equal to or less than 1.2 but greater than 1.1; and
    - (ii) daily, for so long as the amount referred to in Rule S1.2.2(1)(b) is 1.1 or less.

Introduced 11/03/04 Amended 01/01/10

### **S1.2.3 Risk Requirements and Risk Amounts**

- (1) A Participant must calculate:
- (a) its Operational Risk Requirement; and
  - (b) an operational risk amount, as the sum of:
    - (i) the amount of \$100,000;
    - (ii) 8% of the sum of the Participant's:
      - A. Counterparty Risk Requirement;
      - B. Position Risk Requirement; and
      - C. Underwriting Risk Requirement; and
    - (iii) a Secondary Requirement.
- (2) A Participant must calculate in accordance with Annexure 1:



- (a) its Counterparty Risk Requirement; and
  - (b) a counterparty risk amount for each of its Positive Credit Exposures to a Counterparty for:
    - (i) transactions in Financial Instruments referred in Annexure 1 except those transactions which relate to Excluded Assets; and
    - (ii) other transactions in Financial Instruments as prescribed by ASX Clear.
- (3) A Participant must calculate in accordance with Annexure 2:
- (a) its Large Exposure Risk Requirement; and
  - (b) its large exposure risk amount for each:
    - (i) Counterparty;
    - (ii) Equity Net Position and Debt Net Position relative to:
      - A. Liquid Capital; and
      - B. an issue or issuer.
- (4) A Participant must calculate in accordance with Annexure 3:
- (a) its Position Risk Requirement;
  - (b) a position risk amount for all positions in Financial Instruments, except those positions which are Excluded Assets; and
  - (c) a position risk amount for other assets and liabilities which are denominated in a currency other than Australian dollars except for those assets which are Excluded Assets.
- (5) A Participant must calculate in accordance with Annexure 4:
- (a) its Underwriting Risk Requirement; and
  - (b) an underwriting risk amount for each Underwriting.
- (6) A Participant must calculate a Non-Standard Risk Requirement in accordance with Rule S1.2.9.

Introduced 11/03/04

#### **S1.2.4 Approved Subordinated Debt**

- (1) A Participant entering into a subordination arrangement may only include an amount owing under such an arrangement in its Liquid Capital if:
  - (a) the subordination arrangement has the prior approval of ASX Clear under Rules S1.2.4(2) and (3); and

- (b) the amount is notified to and approved by ASX Clear prior to being drawn down under the subordination arrangement and complies with Rule S1.2.4(4) where relevant.
- (2) ASX Clear will not approve a subordination arrangement unless in the opinion of ASX Clear:
  - (a) subject to Rule S1.2.4(6), the amount owing to the lender under the subordination arrangement will not be repaid until all other debts which the Participant owes to any other persons are repaid in full; and
  - (b) the obligation to pay any amount owing under the subordination arrangement is suspended if Rule S1.2.1(1) is no longer complied with.
- (3) ASX Clear will not approve a subordination arrangement unless the Participant has executed an Approved Subordinated Loan Deed in respect of the subordination arrangement.
- (4) [Deleted]
- (5) A Participant must comply with the terms of the Approved Subordinated Loan Deed and any associated agreement to which it, ASX Clear, and the lender are parties and must ensure the lender's compliance with these documents.
- (6) Prior to its Bankruptcy, a Participant may repay an amount owing under an approved subordination arrangement only with the prior approval of ASX Clear.
- (7) ASX Clear will not withhold its approval under Rule S1.2.4(6) if, in the opinion of ASX Clear, the Participant's Liquid Capital divided by its Total Risk Requirement is capable of continuing to be greater than 1.2 on repayment.

Introduced 11/03/04 Amended 01/01/10, 15/06/15, 13/11/17

#### **S1.2.5 Redeemable Preference Shares**

- (1) A Participant must not redeem any redeemable Preference Shares issued by it in whole or in part without the prior approval of ASX Clear.
- (2) ASX Clear will not withhold its approval under Rule S1.2.5(1) if in the opinion of ASX Clear the Participant's Liquid Capital divided by its Total Risk Requirement is capable of continuing to be greater than 1.2 on redemption.

Introduced 11/03/04

#### **S1.2.6 Guarantees and Indemnities**

- (1) A Participant may only give a guarantee or indemnity:
  - (a) for the purposes of these Rules, the operating rules of ASX or the ASX Settlement Operating Rules;
  - (b) in the ordinary course of the conduct of its securities or derivatives business;

(c) outside the ordinary course of its securities or derivatives business if a maximum liability is specified in the guarantee or indemnity at the time it is entered into; or

(d) to settle legal proceedings that have been threatened or issued against it,

and must not give a cross guarantee.

Introduced 11/03/04 Amended 01/08/10

### **S1.2.7 Records and Accounts**

(1) A Participant must maintain records and working papers in sufficient detail to show continuous compliance with Rule S1.2.1 for seven years.

(2) A Participant must prepare its accounts and returns in accordance with accounting standards which are generally accepted in Australia unless ASX Clear approves or prescribes otherwise.

(3) A Participant must record a transaction in its accounts on the date on which it enters into an irrevocable commitment to carry out the transaction.

Introduced 11/03/04

### **S1.2.8 Valuations and Foreign Currencies**

(1) A Participant must mark to market each of its principal positions in Financial Instruments unless Rule S1 provides otherwise:

(a) at least once every Business Day; and

(b) in the following manner:

(i) subject to paragraphs (ii) to (iv), a position must be valued at its closing market price:

A. which is the current bid price for a long position; and

B. which is the current offer price for a short position;

or in the manner prescribed by ASX Clear;

(ii) an Option or rights position may be valued using a value derived from an option pricing model approved by ASX Clear for use in the contingent loss matrix method;

(iii) an Option or rights position which does not have a published market price under subparagraph (i) of this Rule or which cannot be valued using an options pricing model under subparagraph (ii) of this Rule must be valued as follows:

A. for a purchased Option or right, the In the Money amount multiplied by the quantity underlying the Option; and

- B. for a written Option, the sum of the In the Money amount multiplied by the quantity underlying the Option and the initial premium received for the Option;
  - (iv) a Swap or a Forward Rate Agreement must be valued:
    - A. having regard to the net present value of the future cash flows of the contract; and
    - B. using current interest rates relevant to the periods in which the cash flows will arise;
- (2) If a Participant holds a Financial Instrument denominated in a foreign currency then it:
  - (a) must calculate a risk amount for each risk type in that foreign currency; and
  - (b) convert the risk amount in paragraph (a) to Australian dollars at the Market Spot Exchange Rate,

in all cases other than where the Participant is calculating risk amounts for the purposes of Part 3 of Annexure 3 or where Rule S1 expressly provides otherwise.

Introduced 11/03/04

#### **S1.2.9 Unusual or Non-Standard Exposures**

- (1) If a Participant has an exposure arising from a transaction which is not:
  - (a) specifically described in Rule S1 and interpretation issued by ASX Clear in relation to Rule S1; or
  - (b) is not in a form which readily fits within Rule S1,

then it must contact ASX Clear for guidance.

- (2) The risk requirement of a Participant in relation to an exposure under Rule S1.2.9(1) is the full market value of the transaction unless ASX Clear approves otherwise.

Introduced 11/03/04

#### **S1.2.10 Returns and Registers**

- (1) A Participant must ensure that it prepares returns:
  - (a) in accordance with Rule S1 and in the manner and form prescribed by ASX Clear; and
  - (b) which accurately reflect its accounts, financial position and business activities, as appropriate.
- (2) A Participant must ensure that it lodges returns prepared under Rule S1.2.10(1):
  - (a) within the times prescribed by ASX Clear;

- (b) certified by such number of directors as prescribed by ASX Clear, as having been prepared in accordance with Rule S1; and
  - (c) containing any attestations required by ASX Clear relating to its identification of key risks and including the ability of its internal systems to monitor and manage these risks effectively.
- (3) A Participant must maintain a register of its Underwritings which records:
- (a) the date of commencement, crystallisation and termination of each Underwriting and the parties to each Underwriting;
  - (b) the identity, number and price of the Equities or Debt Instruments the subject of each Underwriting;
  - (c) the amount underwritten by the Participant under each Underwriting; and
  - (d) any reduction in the amount underwritten under each Underwriting due to an amount being:
    - (i) sub-underwritten; or
    - (ii) received under a client placement,
 and the date that this reduction occurs.

Introduced 11/03/04 Amended 15/12/17

#### **S1.2.11 Core Capital – Further Requirements – [Deleted]**

Introduced 01/01/10 Amended 28/04/14 Deleted 15/12/17

#### **S1.2.12 Core Capital – Further Requirements Upper Limit – [Deleted]**

Introduced 01/01/10 Amended 28/04/14, 13/11/17 Deleted 15/12/17

### **S1.3 POWERS OF ASX CLEAR**

#### **S1.3.1 Returns, Annexure 5 and Other Matters**

- (1) ASX Clear may prescribe the number and form of returns to be lodged by a Participant including, but not limited to, self assessment forms.
- (2) ASX Clear may prescribe the time for lodgement of returns and other documents under Rule S1.3.1(1) and the manner of their completion.
- (3) ASX Clear may prescribe new or amended details in respect of the Tables in Annexure 5 and a Participant must apply these new or amended details when using these Tables.
- (4) ASX Clear may prescribe the various other matters described in Rule S1 provided that it does so in writing, whether by circular to Participants or otherwise.

Introduced 11/03/04

### **S1.3.2 Requests by ASX Clear**

- (1) ASX Clear may request any information, document or explanation from a Participant to enable ASX Clear to be satisfied that the Participant is, has been and will continue to comply with Rule S1.
- (2) A Participant receiving a request under Rule S1.3.2(1) must respond by providing the information, document or explanation within the time specified by ASX Clear.

Introduced 11/03/04

### **S1.3.3 Secondary Requirement**

ASX Clear may impose a Secondary Requirement on a Participant to cover unusual levels of operational risk provided that ASX Clear notifies the Participant in writing of:

- (a) the additional amount; and
- (b) the time by which the additional amount must be obtained by the Participant.

Introduced 11/03/04

### **S1.3.4 Waivers and Approvals – [Deleted]**

Introduced 11/03/04 Deleted 12/04/05

## **S1.4 TRANSITIONAL ARRANGEMENTS**

### **S1.4.1 General**

- (1) ASX Clear may publish transitional procedures for amendments to Rule S1 that involve systems or operational changes for Participants.
- (2) ASX Clear may give Participants a transition period, of up to 6 months, to comply with those amendments referred to in Rule S1.4.1(1) from the date the amended Rule comes into effect.
- (3) During the transition period under Rule S1.4.1(2) a Participant will be deemed to comply with the amended Rule, if it has complied with the transitional procedures published by ASX Clear in relation to the amended Rule.
- (4) If a Participant fails to comply with the transitional procedures during the transition period which apply to an amended Rule, it will be in breach of this Rule S1.4.1 and the amended Rule.
- (5) After the transition period under Rule S1.4.1(2) expires a Participant must comply with the amended Rule.

Introduced 11/03/04 Origin OCH Schedule 6

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