



ASX RECOVERY RULES

SECTION 6 ALLOCATION OF INVESTMENT LOSSES

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SECTION 6 ALLOCATION OF INVESTMENT LOSSES

6.1 ASX Investments and ASX Clearing Corporation

Investments of funds received by ASX Clear and ASX Clear (Futures) are made by ASX Clearing Corporation Limited (referred to as **ASX Clearing Corporation**). These investments are referred to in this Rule 6 as **ASX Investments**.

6.2 Investment Default, Investment Default Declaration and Investment Loss

Either of the following is an **Investment Default**:

- (a) the insolvency or default of the issuer of an ASX Investment, or the counterparty to ASX Clearing Corporation in respect of the ASX Investment. In the case of an ASX Investment which is a deposit, this includes the deposit-taking institution; or
- (b) a loss which has been recognised with respect to, or other recognised diminution in value of, an ASX Investment (including such loss or diminution which arises in connection with a restructuring or similar event which occurs in respect of the ASX Investment),

except to the extent that is a direct result of:

- (i) the fraud of ASX Clear, ASX Clear (Futures) or ASX Clearing Corporation; or
- (ii) a material non-compliance by the ASX CCP with its investment policy.

If an Investment Default occurs, then ASX Clearing Corporation may declare that an Investment Default has occurred (referred to as an **Investment Default Declaration**) and determine, in its reasonable discretion, that a loss has been caused by or arises out of that Investment Default.

If ASX Clearing Corporation determines that the aggregate amount of losses following one or more related Investment Defaults (as determined by ASX Clearing Corporation in its reasonable discretion) is in excess of A\$75 million (referred to as the **Investment Loss Threshold**) then the amount of that excess (as determined by ASX Clearing Corporation) is the **Investment Loss** in respect of those Investment Defaults.

Each ASX CCP will review the Investment Loss Threshold on at least an annual basis and, will consult with the Risk Committee in relation to any proposed changes in accordance with the ASX CCP Rules.

6.3 ASX CCP Investment Loss and Participant Investment Loss

Each Investment Loss is to be allocated to each Participant in the following way:

- (a) ASX Clearing Corporation is to allocate an amount of the Investment Loss to the ASX CCP. This is to be determined on the basis of ASX Clearing Corporation's calculation of the interest which the ASX CCP holds in the total amount of ASX Investments. The amount so allocated to the ASX CCP is the **ASX CCP Investment Loss**; and
- (b) the ASX CCP is to allocate the ASX CCP Investment Loss which has been allocated to it to each Participant as at the time of the Investment Default Declaration. This allocation is to be determined on the basis of the ASX CCP's calculation of the amount representing funds which the Participant has paid to the ASX CCP in accordance with the Rules (including

Participant Commitment, margin and excess cash) and which has been invested in ASX Investments as at the time of the Investment Default Declaration. The amount so allocated to a Participant in this manner is the **Participant Investment Loss**.

The determination of these amounts is final and binding on the Participant, absent manifest error.

6.4 Allocation to Participant Investment Loss

The ASX CCP is to allocate the Participant Investment Loss for a Participant amongst the amounts representing funds which that Participant has paid to the ASX CCP in accordance with the Rules (including Participant Commitment, margin and excess cash) and which has been invested in ASX Investments as at the time of the Investment Default Declaration on a pro-rata basis across its relevant Accounts (including any Client Accounts). Each such amount is immediately reduced by the amount so allocated to it provided that no amount can be reduced to less than zero. The Participant is to reinstate the amount of such a reduction on or before the next Business Day in the manner specified in the Recovery Handbook. The ASX CCP will notify each Participant of its Participant Investment Loss and the allocation of such Participant Investment Loss across each of its relevant Accounts. However, a failure to provide such a notification does not affect the allocation of the Participant Investment Loss for a Participant in accordance with this Rule 6.4.

6.5 Reimbursement of Recovered Amounts

If the ASX CCP exercises its powers under this Rule 6 in respect of an Investment Default and the ASX CCP subsequently recovers an amount in respect of any ASX Investment which was the subject of the Investment Default, then the amount recovered, less any costs and expenses incurred by either the ASX CCP or ASX Clearing Corporation in connection with the recovery, is the **Recovered Amount** for that Investment Default.

The ASX CCP must use the Recovered Amount in respect of an Investment Default to reimburse the Participants which suffered a reduction in the amount representing funds which the Participants have paid to the ASX CCP in accordance with the Rules (including Participant Commitment, margin or excess cash) because of their Participant Investment Loss with respect to that Investment Default. This is to be reimbursed (by the means which the ASX CCP decides is appropriate) pro rata to those Participants up to the amount of the relevant reduction. Participants will be reimbursed up to the amount of the relevant reductions prior to the ASX CCP being reimbursed for any losses incurred in connection with the relevant Investment Defaults (excluding any costs and expenses incurred by the ASX CCP in connection with the applicable Investment Defaults).

However, the ASX CCP is not required to account to any Participant for any amount which is necessary to discharge any other overdue debt obligation of the Participant to the ASX CCP at that time.

End of Section. Next page is no. 701.