

Proposed Updates to the Capital Liquidity Handbook

JULY 2017



This document shows the proposed updates to be made to the Capital Liquidity Handbook as a result of the proposed amendments to the minimum core capital requirements in ASX Clear Rule S1. Updates are shown in mark-up.

Only those sections of the Handbook that are impacted are shown. The page numbers in this document do not reflect the page numbers of the Handbook.

Please note that the formatting within this document reflects the approach of having terms that are defined in ASX Clear Rule S1 shown in ***bold italic*** within sections 3 to 5 of the Capital Liquidity Handbook.

This document is based on the Handbook dated March 2016. The proposed Handbook updates will be made effective at the same time as the rule amendments take effect. Therefore, there may be some variations between the contents of this document and the final version of the Handbook released at that time.

EXTRACT FROM SECTION 1 OF THE CAPITAL LIQUIDITY HANDBOOK

SECTION 1 – INTRODUCTION TO THE CAPITAL RULES AND HANDBOOK

(a) Introduction

(i) Why is Capital Important

The need to provide a minimum capital standard that covers the inherent risks of a securities business is a well-established regulatory principle. The International Organisation of Securities Commissions (IOSCO)¹ has stated that such standards:

1. foster confidence in financial markets;
2. should be designed to allow a firm to absorb some losses, particularly in the event of large adverse market moves;
3. permit, where necessary the orderly wind down of a securities firm to minimise disruption to both clients and other dealers; and
4. permit supervisors time to intervene to accomplish the objective of orderly wind down.

(ii) Structure of Rules

(A) ASX Clear Capital Requirements

The ASX Clear capital requirements are set out in ASX Clear Operating Rule 5 (“ASX Clear Rule 5”). All ASX Clear Direct Participants and General Participants are subject to the ASX Clear capital requirements.

While ASX Clear Rule 5 only deals with capital requirements, it is complemented by other Rules which cover, for example, the obligations of a Participant to maintain adequate records and the obligation to prepare annual audited accounts (see, for example, ASX Clear Rule 4).

It should be noted that this Handbook only discusses the ASX Clear capital requirements. Capital requirements for participants of ASX Clear (Futures) Pty Limited (ASXCLF) are not covered.

ASX Market Participants that are not also ASX Clear Participants are not subject to any capital requirements imposed by ASX Clear. ASX Market Participants are subject to capital requirements under the ASIC Market Integrity Rules (ASX Market-Capital) 2014.

(B) Available Capital Regimes

Within the ASX Clear Operating Rules, three capital regimes are included. These are the Risk Based Capital Requirements, Net Tangible Assets (NTA) Requirements and Other Capital Regimes.

(1) Risk Based Capital Requirements

The Risk Based Capital Requirements must be used by a Participant that clears equities or options (and may be used by a Participant that clears ASX futures) and are set out in the ASX Clear Operating Rules – refer to ASX Clear Rule 5 and ASX Clear Rule S1 in Schedule 1.

¹ IOSCO Public Document No. 154, *Objectives and Principles of Securities Regulation*, IOSCO Report, May 2003.

This approach relies on both the “balance sheet” and prescribed risk measurement techniques as the measure of a Participant’s financial stability. The capital liquidity requirements are classified into two distinct components:

1. a measure of liquid capital (i.e. regulatory capital); and
2. a measure of risk in the organisation (total risk requirement).

At all times, a Participant will be required to have sufficient liquid capital to cover its total risk requirement. Included in liquid capital is a defined term “core capital”.

–All ASX Clear Direct Participants are ~~subject to a base required to have minimum~~ core capital requirement of \$5,000,000. All ASX Clear General Participants are ~~required to have minimum~~ subject to a base core capital requirement as specified in the following table:

| General Participants – Minimum-Base Core Capital | | |
|---|--------------|---|
| 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"> • itself and one External, or • two Externals. |
| Tier 3 | \$15,000,000 | Clearing for: <ul style="list-style-type: none"> • itself and two Externals, or • three Externals. |
| Tier 4 | \$20,000,000 | Clearing for: <ul style="list-style-type: none"> • itself and three or more Externals, or • four or more Externals. |

In this table "External" means another Participant or a Market Participant.

Additional core capital requirements will apply as follows:

- an additional requirement of \$2,500,000 for Participants undertaking clearing of client written options contracts registered in a Client Account of the Participant with ASX Clear (other than where specific Cover has been lodged), above a de minimis level. Where this activity is at a material level, this additional requirement will instead be \$5,000,000;
- an additional requirement of \$2,500,000 for Participants undertaking own account business above a de minimis level. Where this activity is at a material level, this additional requirement will instead be \$5,000,000; and
- an additional requirement of \$2,500,000 for Participants engaging in any non-ASX client activity above a de minimis level. Where this activity is at a material level, this additional requirement will instead be \$5,000,000.

(2) NTA Requirements

The NTA Requirements can only be used by a Participant that trades and/or clears ASX futures and are set out in the ASX Clear Operating Rules – refer to ASX Clear Rule 5 and ASX Clear Rule S2 in Schedule 2.

This approach relies on the “balance sheet” as the measure of a Participant’s financial stability and permits ASX Clear to restrict open positions to a multiple of NTA. This approach is common in the Australian and some overseas futures markets.

The minimum NTA requirement for an ASX Clear Participant is \$5 million. (Note however there are increased reporting requirements if the NTA is maintained at this minimum level).

(3) Other Capital Regime

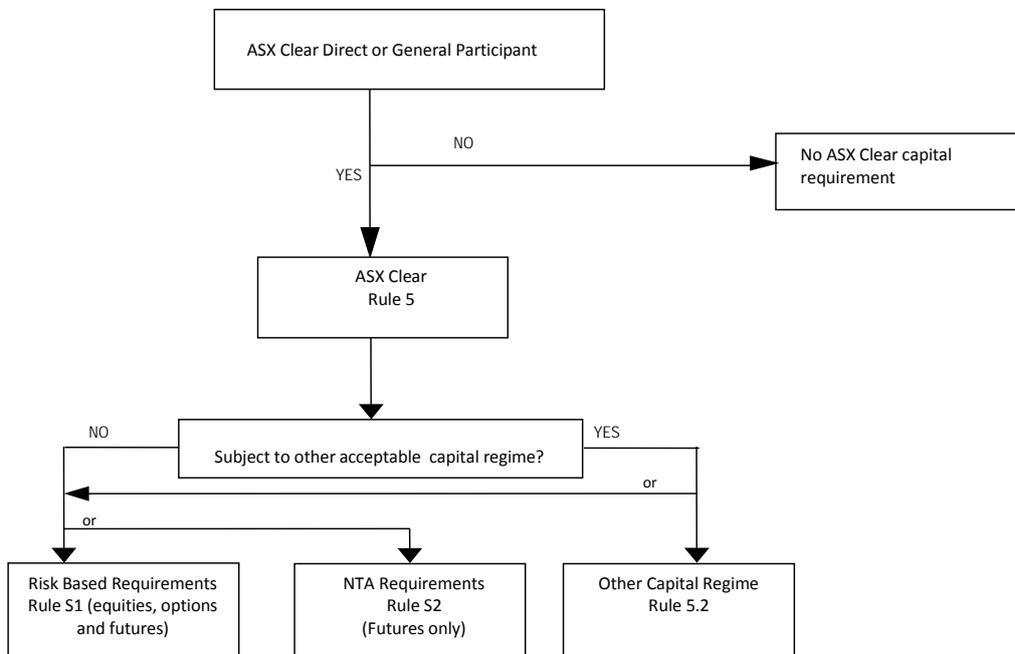
The Other Capital Regime can only be used by a Participant that is an authorised deposit taking institution that has been granted an authority to carry on banking business in Australia under the Banking Act 1959 and that is listed by the Australian Prudential Regulation Authority (APRA) as an “Australian-owned Bank”, “Foreign Subsidiary Bank” or “Branch of Foreign Bank”. The Other Capital Regime rules are set out in the ASX Clear Operating Rules – refer to ASX Clear Rule 5.2.

Upon application by the Participant, ASX Clear may be willing to grant an exemption from the ASX Clear capital requirements on the basis that the bank is subject to the capital requirements and prudential regulation of its banking regulator. This recognition is subject to the conditions set out in ASX Clear Rule 5.2. Under this approach, the prudential supervision of the Participant rests with the banking regulator, rather than with ASX Clear.

(C) Determining Which Capital Rule and Regime Applies

The capital regime that applies to a Participant will depend on the transactions it has trading permission for and/or the clearing authority it has.

The following flowchart may assist in identifying the capital models available to Participants.



EXTRACT FROM SECTION 3B OF THE CAPITAL LIQUIDITY HANDBOOK

SECTION 3B – OBLIGATIONS OF PARTICIPANTS, POWERS OF ASX CLEAR AND TRANSITIONAL ARRANGEMENTS

(a) Rule S1.2 Obligations of Participants

(i) S1.2.1 – Core Capital, Liquid Capital and Total Risk Requirement

(A) Rule

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 ~~the following~~ tables:

(i)

Table A – Direct Participants – ~~Base~~ Minimum Core Capital Requirement

\$5,000,000

Table B – General Participants – ~~Base~~ Minimum 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"> • itself and one External, or • two Externals. |
| Tier 3 | \$15,000,000 | Clearing for: <ul style="list-style-type: none"> • itself and two Externals, or • three Externals. |
| Tier 4 | \$20,000,000 | Clearing for: <ul style="list-style-type: none"> • itself and three or more Externals, or • four or more Externals. |

In ~~this Table~~ 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.

Provided that in satisfying the requirements in Rule S1.2.1(1)(b) a Participant may satisfy an approved portion of the requirement in accordance with, and subject to, Rule S1.2.4(8), Rule S1.2.11 and Rule S1.2.12.

(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.

(B) Procedure

PROCEDURE S1.2.1 CORE CAPITAL, LIQUID CAPITAL AND TOTAL RISK REQUIREMENT

1. For the purposes of Rule S1.2.1(1)(b)(ii):
 - (a) client written options clearing is activity undertaken by a Participant which involves clearing of a written Options Market Contract registered in a Client Account of the Participant;
 - (b) specific Cover is lodged for a written Call Option if, in accordance with paragraph 2.2.1(iii) of Annexure 1 to the Procedures, the outcome of such lodgement is that ASX Clear does not call margins in respect of such Call Option.
2. For the purposes of Rule S1.2.1(1)(b)(iii), own account business is activity undertaken by a Participant which involves:
 - (a) dealing in, or Underwriting, a financial product on its own behalf; or
 - (b) dealing in a financial product on behalf of a Related Body Corporate where the Participant has funded such dealing.
3. For the purposes of Rule S1.2.1(1)(b)(iv), non-ASX client activity is activity undertaken by a Participant which involves:
 - (a) dealing in a financial product on behalf of a client, where the transaction or contract under such dealing is not cleared by ASX Clear or ASX Clear (Futures) Pty Limited;
 - (b) issuing a financial product to a client;
 - (c) providing a credit facility to a client; or
 - (d) disposing of a financial product to a client as part of a securities lending service.
4. ASX Clear may, at its discretion, exclude activities which fall within the descriptions of own account business or non-ASX client activity in paragraphs (2) or (3) above, from its assessment of own account business or non-ASX client activity undertaken by a Participant for the purposes of Rules S1.2.1(1)(b)(iii) or S1.2.1(1)(b)(iv).
5. Where activity undertaken by a Participant falls within both the descriptions of own account business and non-ASX client activity in paragraphs (2) and (3) above, ASX Clear will choose, at its discretion, whether such activity should be included in its assessment of:
 - (a) own account business undertaken by the Participant for the purposes of Rule S1.2.1(1)(b)(iii); or
 - (b) non-ASX client activity undertaken by the Participant for the purposes of Rule S1.2.1(1)(b)(iv),

so that the same activity is not assessed under both of those Rules.

~~(B)~~(C) Guidance

(1) Liquid Capital

Liquid capital is the measure of the regulatory capital a Participant has available to cover the risks that it incurs in the operation of its business. The measure of these risks is referred to as the **total risk requirement**.

Both **liquid capital** and the **total risk requirement** have a number of components to them. These components are specified in the definitions section of the Rule and are restated below.

Liquid capital means the sum of:

1. **core capital**;
2. cumulative **preference shares**;
3. **approved subordinated debt**; and
4. revaluation reserves other than **financial asset revaluation reserves**;

less the sum of:

5. **excluded assets**; and
6. **excluded liabilities**.

As noted above **liquid capital** specifically requires two items to be **deducted** from it. It is important that each Participant familiarises itself with these deductions. **Excluded assets** and **excluded liabilities** are defined terms and full details of these items may be obtained from both the definitions section of the Rule and the guidance provided below.

(2) Core Capital

(a) Definition

Core capital means:

- (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 revaluation reserves**; and
- (d) opening retained profits/losses adjusted for all current year movements.

Core capital does not include **approved subordinated debt**. Accordingly Participants are advised to separately monitor **core capital** to ensure that the minimum requirement is complied with at all times. Any Participant that has negative shareholders equity would be unable to satisfy the **core capital** requirement.

The requirement to exclude **approved subordinated debt** from **core capital** applies to all Participants irrespective of ownership structure. Hence, even though the lender of **approved subordinated debt** may be the owner of the Participant, the Risk Based Capital Requirements treats this “transaction” on an arms length basis and accordingly the amount must be excluded from **core capital**.

~~Notwithstanding the above, Rule S1.2.4(8) provides for a concession with respect to the inclusion of **approved subordinated debt** in the calculation of **core capital** for a limited period of time. Further guidance on this concession is provided in the guidance section for Rule S1.2.4(8).~~

Participants may satisfy a portion of their **core capital** requirement with **approved subordinated debt** or by providing cash to ASX Clear. Further guidance on this is provided in the guidance for Rules S1.2.4(8), S1.2.11 and S1.2.12.

[Note: the deletion of the above paragraphs will occur as part of other rule amendments relating to the removal of the use of approved subordinated debt for core capital purposes which are currently in process.]

(b) Minimum Requirements

The minimum **core capital** requirement for a Participant will be the sum of a base requirement, a requirement based on client written options clearing, a requirement based on own account business and a requirement based on non-ASX client activity.

For a Participant that has ceased clearing activity and has become an inactive ASX Clear Participant, ASX Clear may determine under Rule S1.2.1(2)(a) to only apply the **base core capital requirement** and to not require the Participant to submit a business activities return on a quarterly basis. (Guidance on the business activities return can be found in section 4 of this Handbook.)

(i) Base Requirement

The **base core capital requirement** for a Direct Participant is \$5,000,000.

The **base core capital requirement** for a General Participant varies from \$5,000,000 to \$20,000,000. Note that as the **core capital** requirement increases with the number of **Trading Market** Participants² that a General Participant clears for, if a General Participant seeks to increase the number of **Trading Market** Participants it clears for and this will push the them into a new tier, it will need to demonstrate that it can meet the higher **core capital** requirement as specified in Rule S1.2.1(1)(b)(i) **before it commences clearing for the other Market Participant**. If the General Participant cannot meet the higher **core capital** requirement, it will not be permitted to clear for the **additional other Trading Market** Participant.

(ii) Client Written Options Clearing Component

Client written options clearing relates to the clearing of written Options Market Contracts that are registered in the Participant's Client Account(s) and that do not have specific Cover lodged against them. For the purposes of the **core capital** requirements, a written Call Option has specific Cover lodged against it if, in accordance with paragraph 2.2.1(iii) of Annexure 1 to the ASX Clear Rules Procedures, the outcome of such lodgement is that ASX Clear does not call margins in respect of such contract.

Given that initial margin on Options Market Contracts is predominantly driven by written options², it is this initial margin that will be used for the purposes of setting the **core capital** requirement for the level of written options activity.

If the average initial margin for Options Market Contracts in the Participant's Client Account(s) over the previous 12 months is less than \$2,500,000, the client written options clearing activity will be considered de minimis and the additional **core capital** requirement for this activity will be nil.

If the average initial margin for Options Market Contracts in the Participant's Client Account(s) over the previous 12 months is from \$2,500,000 to \$40,000,000 (inclusive), the client written options activity will be considered intermediate³ and the additional **core capital** requirement for this activity will be \$2,500,000.

² The term Market Participant captures participants of ASX Ltd and also participants of Chi-X Australia Pty Ltd.

³ If the activity is determined to be intermediate, it has been determined not to be de minimis or material.

If the average initial margin for Options Market Contracts in the Participant's Client Account(s) over the previous 12 months is greater than \$40,000,000, the client written options activity will be considered material and the additional **core capital** requirement for this activity will be \$5,000,000.

If there is less than 12 months of initial margin data for a Participant due to it only recently commencing options clearing, the assessment will be based on the average initial margin over the actual period of time for which data is available. However, if the Participant already has an established client base for options trading prior to it starting to clear options transactions for those clients (eg, if the Participant previously executed options trades which were cleared by a third party clearer), ASX Clear will use the initial margin data for the previous 12 months for those Client Accounts to make its assessment of the Participant's additional **core capital** requirement for client written options clearing. The Participant from which those options positions will be transferred will be requested to provide the list of Client Accounts so that ASX Clear can extract the initial margin data specifically for those clients.

(iii) Own Account Business Component

Own account business relates to dealing in or **underwriting** a financial product undertaken by a Participant or dealing in a financial product on behalf of a Related Body Corporate where the Participant has funded such dealing. It therefore seeks to address a Participant's risk profile due to activities which directly or potentially place the Participant's own funds at risk of a loss due to a change in value of the financial product.

Examples of own account business are:

- **underwriting** (irrespective of whether the activity is mitigated by sub-underwriters);
- market making activity where the Participant is taking on the risk of the positions acquired from the market making activity;
- all Participant house activity, irrespective of the exchange the transactions are executed on or the central counterparty through which the transactions are cleared;
- principal positions held by the Participant arising from its corporate finance activities; and
- client facilitation where the Participant has transacted as principal with its client and then seeks to close its principal position by transacting with other clients.

Own account business would not include:

- principal trading or investments conducted by related entities of the Participant (provided they are not funded by the Participant);
- principal positions arising from errors, back to back transactions and hedging transactions;
- foreign currency denominated bank accounts; and
- stock borrowing transactions undertaken for the purposes of meeting ASX settlement obligations.

ASX Clear's assessment of the minimum **core capital** requirement for own account business will primarily be based on the information reported by a Participant in its business activities return.

A Participant that does not undertake any own account business will not have an additional **core capital** requirement apply to them.

A Participant that self-declares materiality will automatically have an additional **core capital** requirement of \$5,000,000 apply for own account business. For other Participants, ASX Clear will make an assessment of whether the Participant's own account business is considered to be de minimis, intermediate⁴ or material.

⁴ If the activity is determined to be intermediate, it has been determined not to be de minimis or material.

The starting point for this assessment will be the aggregate of its position/risk limits and exposure limits across all products and activities, as reported in the own account business section of the business activities return. If the aggregate limit is:

- less than \$1,000,000, the own account business will initially be considered de minimis;
- from \$1,000,000 to \$10,000,000 (inclusive), the own account business will initially be considered intermediate; or
- greater than \$10,000,000, the own account business will initially be considered material.

Other factors will then be taken into account such as turnover, limit utilisation, number of transactions and the percentage of total revenue that is generated from own account business. If any of these are considered to be significant, then the Participant will be moved up into the next category (ie, from de minimis to intermediate or from intermediate to material). For example, a Participant with an aggregate limit of between \$1,000,000 and \$10,000,000 and with a high level of turnover or a high percentage of revenue from own account business will be moved from the initial category of intermediate to material.

Participants will not be moved down a category if the other factors (as referred to in the paragraph above) are not significant. This is because of the potential for the Participant to have significant positions or exposures even if this is not currently the case. For example, a Participant with an aggregate limit of \$6,000,000 but low turnover, limit utilisation, number of transactions and revenue from own account business would be kept in the intermediate category.

If the own account business is assessed as being de minimis, the additional **core capital** requirement for this activity will be nil.

If the own account business is assessed as being intermediate, the additional **core capital** requirement for this activity will be \$2,500,000.

If the own account business is assessed as being material, the additional **core capital** requirement for this activity will be \$5,000,000.

(iv) Non-ASX Client Activity Component

Non-ASX client activity relates to:

- dealing in financial products on behalf of a client where the transactions or contracts under such dealing are not cleared by ASX Clear or ASX Clear (Futures) Pty Ltd (ASXCLF);
- issuing financial products to a client;
- providing a credit facility to a client; and
- disposing of financial products to a client as part of securities lending transactions.

For the avoidance of doubt, references to ‘client’ above include a Related Body Corporate of the Participant.

Examples of non-ASX client activity include:

- acquiring, disposing of or subscribing for financial products on behalf of a client where the relevant transaction or contract is not cleared through ASX Clear or ASXCLF, and would include:
 - client execution on other exchanges not cleared through ASX Clear or ASX Clear (Futures) Pty Ltd (ASXCLF);
 - client clearing through a central counterparty other than ASX Clear or ASXCLF; and
 - client non-exchange traded products (other than those cleared by ASX Clear or ASXCLF);
- offering clients the ability to trade in international stocks and **derivatives** under an arrangement where the Participant acts as an intermediary between its clients and an international broker;
- contracts for difference;

- securities lending;
- margin lending and the provision of other credit facilities; and
- debt and foreign exchange activities.

For the purposes of the minimum **core capital** requirements, the following are not included as non-ASX client activities:

- trading on the Chi-X Australia market on behalf of a client as this is cleared by ASX Clear;
- offering clients the ability to trade in international stocks and **derivatives** under an arrangement where the Participant only acts as an introducing broker and does not act as an intermediary between its clients and an international broker;
- the issue and redemption of managed funds through the ASX mFund service for a client;
- “administrative” type activities for a client (eg, portfolio administration and superannuation);
- provision of paid services where the Participant is not exposed directly to financial risk (eg, research and financial planning); and
- ancillary services performed by the Participant on the instruction of a client, such as placing the client’s funds into a term deposit or an off-market acquisition of debentures for a client (ie, in both cases the Participant is just moving the funds on the client’s instructions).

ASX Clear’s assessment of the minimum **core capital** requirement for non-ASX client activity will primarily be based on the information reported by a Participant in its business activities return.

A Participant that does not undertake any non-ASX client activity will not have an additional **core capital** requirement apply to them.

A Participant that self-declares materiality will automatically have an additional **core capital** requirement of \$5,000,000 apply for non-ASX client activity. For other Participants, ASX Clear will make an assessment of whether the Participant’s non-ASX client activity is considered to be de minimis, intermediate⁵ or material.

The starting point for this assessment will be the percentage of total revenue that is generated from non-ASX client activity (on a year to date basis). If year to date revenue from non-ASX client activity is:

- less than 5% of total revenue, the non-ASX client activity will be considered de minimis unless the other information reported in the return appears significant, in which case the non-ASX client activity will be considered intermediate;
- from 5% to 25% (inclusive) of total revenue, the non-ASX client activity will be considered intermediate unless the revenue from non-ASX client activity is less than \$2,500,000⁶ (in which case the non-ASX client activity will be considered de minimis) or the other information reported in the return appears significant enough to warrant the non-ASX client activity being considered material; or
- greater than 25% of total revenue, the non-ASX client activity will be considered material.

If the non-ASX client activity is assessed as being de minimis, the additional **core capital** requirement for this activity will be nil.

If the non-ASX client activity is assessed as being intermediate, the additional **core capital** requirement for this activity will be \$2,500,000.

If the non-ASX client activity is assessed as being material, the additional **core capital** requirement for this activity will be \$5,000,000.

⁵ If the activity is determined to be intermediate, it has been determined not to be de minimis or material.

⁶ The year to date revenue from non-ASX client activity will be annualised to compare to the \$2,500,000 threshold.

(c) Assessment Process and Timing

The minimum **core capital** requirement for each Participant will be reviewed on a quarterly basis using ASX Clear’s initial margin data and the business activities return submitted by the Participant (all data as at the end of each quarter).

Where the quarterly review indicates that there has been a significant shift in the Participant’s risk or business profile that ASX Clear considers will change its minimum **core capital** requirement, ASX Clear will notify the Participant in writing of the new requirement.

If the requirement is increased, the Participant will have to meet the additional **core capital** requirement by the date specified in the notification from ASX Clear, which will be at least a period of six months from the date of notification. However, this timeframe does not apply in the case of an increased requirement for a General Participant arising from it clearing for an additional Market Participant as this needs to be met prior to it starting clearing for that additional Market Participant.

If the requirement is decreased, it will take effect on the date specified in the notification from ASX Clear. Furthermore, if this decreased requirement follows a previous notification of an increased requirement which the Participant has not yet met because the implementation period has not yet elapsed, the increased requirement will not apply.

(iv) **S1.2.4 - Approved Subordinated Debt**

(A) **Rule**

| S1.2.4 | Approved Subordinated Debt |
|---------------|--|
| (1) | <p>A Participant entering into a subordination arrangement may only include an amount owing under such an arrangement in its Liquid Capital if:</p> <ul style="list-style-type: none">(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) | <p>ASX Clear will not approve a subordination arrangement unless in the opinion of ASX Clear:</p> <ul style="list-style-type: none">(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) | <p>ASX Clear will not approve a subordination arrangement unless the Participant has executed an Approved Subordinated Loan Deed in respect of the subordination arrangement.</p> |
| (4) | <p>[Deleted]</p> |
| (5) | <p>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.</p> |
| (6) | <p>Prior to its Bankruptcy, a Participant may repay an amount owing under an approved subordination arrangement only with the prior approval of ASX Clear.</p> |
| (7) | <p>ASX Clear will not withhold its approval under Rule S1.2.4(6) if in the opinion of ASX Clear:</p> <ul style="list-style-type: none">(a) the Participant's Liquid Capital divided by its Total Risk Requirement is capable of continuing to be greater than 1.2 on repayment; and(b) the Participant's Core Capital is capable of continuing to be equal to or greater than the amount required under Rule S1.2.1 when Approved Subordinated Debt is included under Rule S1.2.4(8). |
| (8) | <p>If a Participant does not hold sufficient Core Capital under Rule S1.2.1(1)(b), then it may with the prior approval of ASX Clear and subject to such conditions and limitations as ASX Clear may specify, include Approved Subordinated Debt to satisfy an approved portion of its Core Capital requirement commencing on the date that the Participant first does not hold sufficient Core Capital.</p> <p><i>[Note: this deletion is occurring as part of other rule amendments relating to Approved Subordinated Debt.]</i></p> |

(B) Guidance

(1) General

The general principle associated with this Rule is that a Participant may only initially include an amount owing under a subordination arrangement in **liquid capital** if the arrangement is appropriately documented and that documentation is approved by ASX Clear. Subsequent to this initial approval, all advances and payments must be approved by ASX Clear before the amount can be included or removed from **liquid capital**. There are no limits on the amount of **approved subordinated debt** that can be included in **liquid capital**.

In normal circumstances **approved subordinated debt** cannot be included in **core capital**, however as noted below, with the approval of ASX Clear, it may be included on a temporary or conditional basis.

(2) Establishing and Maintaining an Approved Subordinated Debt Facility

Further details on establishing and maintaining an **approved subordinated debt** facility are provided in Section 5, Approved Subordinated Debt Documentation.

~~(3) Use of Approved Subordinated Debt For Core Capital Purposes~~

~~Rule S1.2.4(8) enables ASX Clear to give approval for a Participant to satisfy a specified portion of its minimum core capital requirement with **approved subordinated debt**.~~

~~The purpose of this Rule is to provide additional flexibility to further assist Participants to meet the minimum core capital requirements.~~

~~**Approved subordinated debt** can only be used for this purpose with ASX Clear's prior approval. ASX Clear may impose conditions on this approval, which must be met by the Participant. Failure to do so would be a potential breach of the ASX Clear Operating Rules for which the Participant may be subject to disciplinary action.~~

~~Where a Participant is above the minimum **core capital** requirement, ASX Clear will only consider approving the use of **approved subordinated debt** as an interim measure to enable the Participant to remain in compliance until such time as a capital injection can be organised. If approval is granted, it would be likely to be subject to a time limit and a condition preventing the Participant from reducing its share capital without ASX Clear's prior approval (e.g. no share redemptions or buybacks and no dividend payments without prior approval).~~

~~[Note: the deletion of this section will occur as part of other rule amendments relating to the removal of the use of approved subordinated debt for core capital purposes.]~~

(x) **S1.2.10 - Returns and Registers**

(A) **Rule**

| | |
|----------------|---|
| S1.2.10 | Returns and Registers |
| (1) | A Participant must ensure that it prepares returns: <ul style="list-style-type: none">(a) in accordance with Rule S1 and in the manner and form prescribed by ASX Clear; and(b) which accurately reflect its accounts, and its financial position <u>and business activities, as appropriate.</u> |
| (2) | A Participant must ensure that it lodges returns prepared under Rule S1.2.10(1): <ul style="list-style-type: none">(a) within the times prescribed by ASX Clear;(b) certified by 2 or such other number of directors or partners 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: <ul style="list-style-type: none">(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:<ul style="list-style-type: none">(i) sub-underwritten; or(ii) received under a client placement,and the date that this reduction occurs. |

(B) **Guidance**

(1) **General**

The purpose of this Rule is to clarify the obligations of Participants in relation to the returns that are required to be lodged and the registers that are required to be maintained.

Simply stated, all prescribed returns lodged with ASX Clear should be accurate, lodged on a timely basis and be authorised by the prescribed number of directors. Similarly, all registers should be accurately maintained.

(2) Prescribed Returns

Section 4 of this Handbook contains a summary of the returns that are required to be lodged by all Participants that comply with the Risk Based Capital Requirements.

Under the Risk Based Capital Requirements, there are ~~four~~ five prescribed return formats that require lodgment at various times or under different circumstances. The returns are available in the Return Lodgement & Monitoring (RLM) system, except for the Business Activities Return which is available on ASX Online. [Note – return will be made available on ASX Online once the rule amendments take effect.]

1. Adhoc Return
2. Summary Capital Liquidity Return
3. Capital Liquidity Return
4. Annual Audited Return
- 4-5. Business Activities Return

General instructions on completing these returns, return deadlines and details of late lodgement fees are provided in Section 4.

(3) Rule S1.2.10(1)

(a) General

The purpose of this Rule is to ensure Participants prepare all financial returns to ASX Clear on a consistent basis and that these returns accurately reflect the financial position and business activities, as appropriate, of the Participant.

In the normal course of business, Participants lodge an unaudited Capital Liquidity Return with ASX Clear on a monthly basis and a Business Activities Return on a quarterly basis.

In addition to the abovementioned ~~Capital Liquidity Return~~ returns, under Rule S1.3.1, ASX Clear has prescribed that each Participant is required to lodge an Annual Audited Return as at the end of its financial year.

(b) The Objective of Prescribing Returns

There are clear supervisory objectives of having Participants provide ASX Clear with a regular update of their financial position and business activities and these include the following:

1. The information provides ASX Clear with the financial data needed to determine whether or not the organisation is in compliance with the ASX Clear capital requirements. This is important for several reasons, not least of which is to protect ASX Clear and the ASX market more generally.
2. The success with which ASX Clear can compete in domestic and international markets is correlated to its ability to ensure the integrity of its market. Maintaining a profile of the financial strength of participants allows it to monitor and assess a Participant's ability to remain as a going concern, thereby protecting the integrity of the market and the reputation of ASX Clear as a supervisor.
- ~~3. This information is used not only to assess the financial strength of each individual Participant, but also to assess the financial strength of the stockbroking industry as a whole.~~ The information also facilitates the identification of trends in the industry, whether it be in a specific

sector or across the industry. This is important as it provides valuable input into the assessment of systemic risk.

3-4. The information provides ASX Clear with the business activity information needed to determine a Participant's minimum **core capital** requirement.

The data collected is used to determine areas of weakness that could potentially have a detrimental impact on an individual Participant, or the market generally. ASX Clear must therefore have confidence in the accuracy of that data. There are two key supervisory considerations that drive this. Firstly, ASX Clear needs to have confidence that the Participant's monitoring of its **liquid margin capital** requirement is adequate and may be relied upon at all times. Secondly, the validity of decisions and conclusions reached based on this information is compromised where the information ASX Clear receives does not present a true and fair assessment of the financial position of Participants.

For example, an analysis of the data could result in the conclusion that selected Participants need to be monitored closely over a specified period, or that additional reporting is required from them, but that overall, the industry is healthy. However, if the information for one of the "watch closely" Participants was incorrect, and had ASX Clear's analysis included the correct financial position, which for the purpose of this illustration is far worse than reported, an alternate decision might have been, in the extreme case, to suspend the organisation.

In addition, the Exposure Risk Management unit assesses a Participant's risk based on the ratio of its **liquid capital** to the assessed risk on its **derivatives** and cash market positions. Therefore, the accuracy of the **liquid capital** figures is of prime importance in ASX Clear's management of risk. Inaccurate **liquid capital** figures could result in an inaccurate assessment of ASX Clear's derivatives exposure and as such, ASX Clear could be at risk.

Accordingly, it is fundamental that the information relied upon to achieve the above objectives presents a true and fair view of the state of affairs of the Participant.

ASX Clear recognises that it is important, however, to adopt policies that reflect commercial realities. The policies must be balanced between mandating the reporting of information that provides an accurate assessment of the state of affairs of the Participant, and accepting that differences will arise given the type and nature of the reporting requirements. The challenge is to recognise that the information reported, to some degree, is generated manually or from detached systems applications and given the relatively short reporting deadlines, an element of estimation will be necessary. It then becomes a question of tolerance: those cases that do not compromise the objectives, and those that do. However, it is also important to recognise that one of the obligations that comes with gaining access to the market as a Participant is mandatory supervision oversight and a reporting framework that adopts a "near enough is good enough" benchmark compromises the integrity of the whole system.

(c) Policy on Inaccurate Returns

Participants are encouraged to approach ASX Clear as soon as possible if they have identified that the information contained within a lodged return does not present a true and fair view of the financial state or business activities of the organisation.

There will generally be three distinct levels of regulatory response to an inaccurate return depending on the degree of seriousness of the inaccuracy and on potential consequences of the inaccurate reporting:

1. **No ~~action~~ escalation.** There may be verbal or email advice to the Participant to highlight the regulatory objectives of accurate reporting and to point out areas for improvement.
2. An **~~inaccurate return letter~~ Management Letter** may be sent to the Participant from ASX Counterparty Risk Assessment pointing out the regulatory objectives of accurate reporting and the possibility of further disciplinary action or referral to ASX **~~Enforcement and/or ASIC~~ Participants Compliance.**
3. **Referral to ASX ~~Enforcement and/or ASIC~~ Participants Compliance** for possible disciplinary action which may include a management letter being sent to the Participant, a referral to ASX Enforcement or a referral to ASIC.

It is not possible to prescribe a precise definition of “accurate” and some discretion must be applied, on a case by case basis, in determining which of the above regulatory responses is appropriate.

(d) Factors Considered When Assessing if a Return is Inaccurate

The following factors and issues need to be assessed when determining which of the above responses is appropriate:

1. the intentional misreporting of information to present a false or misleading statement of the financial position or business activities of the Participant will automatically lead to a referral to ASX Participants Compliance for potential disciplinary action, ~~including possible referral to ASX Enforcement and/or ASIC~~;
2. if the error or adjustment was reported by the Participant (i.e. it was not discovered by ASX Clear in a subsequent review), it is a mitigating circumstance that demonstrates that the Participant’s internal controls and other checks and balances are effective and that the Participant has an open working relationship with ASX Clear;
3. if the error or adjustment is in respect to a past reporting period, it may be more serious than if it was in relation to the current reporting period. The rationale for this is that the length of time it takes for an error to be detected could indicate a more serious breakdown in control. However, this is not to say that current issues are necessarily less important. Generally, it should not be expected that errors surface from past financial years;
4. if the error or adjustment or the circumstances giving rise to the error or adjustment is the first instance of such an error, adjustment, or circumstance, it is likely to be less serious than if that same error, adjustment or circumstance has occurred in the recent past (within the last 6 months for Capital Liquidity Returns), and it does not matter that ASX Clear may not have raised a concern with the Participant in relation to the previous occurrences;
5. if the error or adjustment is the first instance of that type of error or adjustment, notwithstanding paragraph 4, it may be considered more serious if the Participant has had several one-off errors or adjustments in the returns over the past 6 Capital Liquidity Returns. This could indicate that the Participant has internal difficulties in producing and checking the returns;
6. with respect to paragraphs 4 and 5, it is not necessary for the Participant to have been “warned” about a past error or adjustment (i.e. a “no action escalation” response) for those past

errors or adjustments to be used to elevate the regulatory response with respect to a current matter;

7. if the Participant had no control over the cause of the adjustment, it is less serious than if the Participant should have had control, or been aware of the circumstances surrounding the adjustment. This is particularly relevant when assessing the impact of adjustments to provisions or accruals. It is important to assess whether the Participant has failed to make reasonable accruals throughout the year and/or prior to lodging a return with ASX Clear;
8. if the error or adjustment is in respect to matters that have previously been the subject of disciplinary proceedings or the subject of previous [inaccurate return letters or](#) management letters, it will be treated more seriously;
9. if the error or adjustment does not impact on the Participant's **liquid margin** (i.e. it has neither a negative nor positive effect on the value of **liquid margin**), it is likely to be less serious than if it does. In addition, recognition may be given to the instance where the error or adjustment results in an improvement in the capital position of the Participant rather than a worsening of its position; and
10. the size of the adjustment relative to the Participant's **liquid margin** and relative to the relevant balance sheet or profit and loss category is also a relevant consideration. The greater the impact, the more serious the response is likely to be.

(4) Rule S1.2.10(2)

The purpose of this Rule is to ensure all Participants lodge the prescribed returns on time and that these returns are appropriately authorised by the number of directors prescribed by ASX Clear. Details of return lodgement times and authorisation requirements are set out in Section 4 of this Handbook.

(5) Rule S1.2.10(3)

The purpose of this Rule is to ensure each Participant records all of its **underwriting** commitments.

This is necessary to ensure a Participant can measure its contingent liabilities (arising from its **underwriting** commitments) at all times. The maintenance of such a register may also be useful in determining a Participant's potential exposure in the event of a market downturn occurring during the offer period of the **underwriting**.

The requirement to maintain the **underwriting** register is independent of the **underwriting risk requirement** which, as noted earlier, has not been implemented at this time.

Participants are not required to lodge their **underwriting** register with ASX Clear but are required to make it available if requested.

(xi) **S1.2.11 – Core Capital – Further Requirements**

(A) **Rule**

S1.2.11 Core Capital – Further Requirements ~~[Deleted]~~

~~If a Participant does not hold sufficient Core Capital under Rule S1.2.1(1)(b) a Participant may, with the prior approval of ASX Clear and subject to such conditions and limitations as ASX Clear may specify, satisfy an approved portion of its Core Capital requirement by providing cash to ASX Clear which will be available to ASX Clear in the event of the Participant committing an event of default under Rule 15.1, or if Rule 15.3 applies, to discharge the obligations of the Participant to ASX Clear.~~

~~(B) — Guidance~~

~~(1) — General~~

~~The purpose of this Rule is to provide additional flexibility to further assist Participants to meet the minimum **core capital** requirements. Participants, with prior ASX Clear approval, may satisfy up to 50% of their **core capital** minimum requirement by lodging any combination of cash or injecting **approved subordinated debt**.~~

~~ASX Clear may impose conditions on this approval, which must be met by the Participant. Failure to do so would be a potential breach of the ASX Clear Operating Rules for which the Participant may be subject to disciplinary action.~~

~~(2) — Procedures for Lodgement of Cash~~

~~In seeking approval to provide cash under Rule S1.2.11(1), the Participant must state the amount of cash to be lodged. If approval is granted, ASX Clear will notify the Participant of this in writing. This will also set out any conditions imposed.~~

~~The Participant will then need to notify ASX Counterparty Risk Assessment of the date and amount of cash payment, preferably at least one day prior to the payment but no later than 10am on the date of payment. Payment is to be made via Austraclear.~~

~~If the Participant wants to withdraw the cash, it will need to contact ASX Counterparty Risk Assessment to request this and also provide an ad hoc return showing its current financial position (the return should be reflective of the Participant's most recent capital and risk figures). ASX Clear will write to the Participant to notify of its decision. If the withdrawal is approved, ASX Clear may need to revoke or amend the approval originally granted under Rule S1.2.11(1).~~

(xii) **S1.2.12 - Core Capital – Further Requirements Upper Limit**

(A) **Rule**

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

~~For the purpose of complying with Rule S1.2.1(1)(b), any Approved Subordinated Debt or cash under Rules S1.2.4(8) and S1.2.11 must not in total exceed 50% of the minimum Core Capital amount required by Rule S1.2.1(1)(b).~~

~~(B) — Guidance~~

~~The purpose of this Rule is to place an upper limit of 50% on the amount of **approved subordinated debt** or cash that can be included towards meeting the minimum **core capital** requirements for Participants.~~

~~As an example, if a Participant's minimum core capital requirement is \$5,000,000 then the maximum amount of **approved subordinated debt** or cash that can be used to meet the core capital requirement (if approval has been granted by ASX Clear) is \$2,500,000.~~

SECTION 4 OF THE CAPITAL LIQUIDITY HANDBOOK

SECTION 4 – REPORTING REQUIREMENTS GUIDANCE

(a) Overview

(i) Returns

The Risk Based Capital Requirements have ~~four~~ **five** prescribed returns that may require lodgement at various times or under different circumstances and these are noted below:

1. **Adhoc Return** - to be lodged by all Participants on an ad hoc, daily or weekly basis if requested by ASX Clear or if the ratio of **liquid capital** to **total risk requirement** falls below the specified minimum;
2. **Summary Capital Liquidity Return** – to be lodged by all Participants on an ad hoc, daily or weekly basis if requested by ASX Clear;
3. **Capital Liquidity Return** – to be lodged by all Participants on a monthly basis; ~~and~~
4. **Annual Audited Return** – to be lodged by all Participants on an annual basis; ~~and~~
- 4-5. **Business Activities Return** – to be lodged by Participants on a quarterly basis.

Each return (other than the Business Activities Return) has been developed around a single base return structure. This means that there is basically a single return format from which various returns can be derived for different purposes. For example, the **Annual Audited Return** represents the whole return structure. The **Capital Liquidity Return** is a reduced form of the **Annual Audited Return**, the **Summary Capital Liquidity Return** is a reduced form of the **Capital Liquidity Return** and the **Adhoc Return** is a reduced form of the **Summary Capital Liquidity Return**.

(ii) Lodgement Format

All Participants are required to prepare and submit their returns (other than the Business Activities Return) electronically using the Return Lodgement and Monitoring (RLM) system. This format is mandatory as it enables Counterparty Risk Assessment to complete an analysis of the data received. Please note that this system is designed to enable a Participant to report its capital liquidity figures, it **does not** calculate the detail that makes up these figures.

In order to access the RLM system, users must first obtain an ASX Online username and password. A RLM user account then needs to be obtained (and activated by Counterparty Risk Assessment). The RLM system is then able to be accessed through ASX Online from any PC that has internet access. The username and password for RLM will be the same as for the ASX Online account.

The Business Activities Return is a paper based return. A scanned copy of the signed return must be submitted via email.

(b) Summary of Returns

(i) Introduction

A brief commentary on each return is provided below. A table setting out the sections that need to be completed for each type of return ([other than the Business Activities Return](#)) is provided later in this section of the Handbook.

(ii) Adhoc Return

(A) General

The **Adhoc Return** is a single page return which summarises the components of **liquid capital** and **total risk requirement** as well as the **liquid margin** and the capital ratio. This return may be required to be completed on an ad hoc, daily or weekly basis.

(B) Lodgement and Authorisation Requirements

The **Adhoc Return** must be prepared and submitted via the RLM system. Only one director's authorisation is required to submit the return.

(iii) Summary Capital Liquidity Return

(A) General

The **Summary Capital Liquidity Return** may be required to be completed on an ad hoc, daily or weekly basis as advised by ASX Clear.

(B) Lodgement and Authorisation Requirements

The **Summary Capital Liquidity Return** must be prepared and submitted via the RLM system. Only one director's authorisation is required to submit the return.

(iv) Capital Liquidity Return

(A) General

The **Capital Liquidity Return** includes the same sections as the **Summary Capital Liquidity Return** and is required to be completed on a monthly basis.

As the business activities undertaken by each Participant will vary and, in some instances, Participants have a choice of methodology in the calculation of the capital requirement, the number of sections in the **Capital Liquidity Return** that one Participant is required to lodge will vary to that of another Participant.

In addition, if the business activities of the same Participant varies from month to month the number of sections that are required to be lodged may also vary.

(B) Lodgement and Authorisation Requirements

The **Capital Liquidity Return** must be prepared and submitted via the RLM system. Only one director's authorisation is required to submit the return.

(v) Annual Audited Return

(A) General

The Annual **Audited Return** includes those sections that are required to be lodged as a **Capital Liquidity Return**, as well as a statement by the Participant's auditors on the accounts of the Participant.

(B) Lodgement and Authorisation Requirements

The following **Annual Audited Return** "package" should be lodged with Counterparty Risk Assessment by the due date:

1. Electronic copy of the Annual Audited Return submitted via the RLM system. The return must be authorised by two directors or by one director in accordance with a resolution of the board of directors (in which case the date of the resolution must be specified in the return);
2. Scanned copy of the independent "Audit Report on Financial Information", dated and signed by the audit firm;
3. Scanned copy of statutory accounts, including directors declaration and audit report as required under the laws of the Participant's home jurisdiction;
4. If the Participant is authorised to use the internal models approach of Rule S1, Annexure 3, Part 4, scanned copy of the report from the independent review of the Participant's risk management system (as required under Rule S1, Annexure 3, Part 4, clause 25 (b) (viii)); and
5. If the Participant has been given approval to use foreign accounting standards under Rule S1.2.7(2) and ASX Clear Rule 4.4.3(a), the Participant will need to provide the scanned copy of the "Assurance Report Relating to Accounting Standards Applicable to the Participant" signed by one director in accordance with a resolution of the board of directors (in which case the date of the resolution must be specified) or by two directors.

(vi) Business Activities Return

(A) General

The purpose of the **Business Activities Return** is for ASX Clear to obtain data on the own account business and non-ASX client activity conducted by Participants to be used as part of the determination of each Participant's **core capital** requirement.

The **Business Activities Return** is required to be completed on a quarterly basis.

A Participant that has been determined by ASX Clear to be inactive under Rule S1.2.1(2)(a) and therefore is only subject to the base **core capital** requirement is not required to submit the **Business Activities Return**.

A Participant that has submitted a Business Activities Return in which it has requested that both its own account business and non-ASX client activity be automatically deemed material will have the additional \$5,000,000 **core capital** requirement apply for each of these activities. Such a Participant is not required to submit further Business Activities Returns on a quarterly basis until such time as it believes that there has been a reduction in the materiality of either of those activities and it wishes to have its **core capital** requirement assessed by ASX Clear.

A copy of the pro forma **Business Activities Return** is available on ASX Online (**LINK TO BE INSERTED HERE IN DUE COURSE – PLEASE NOTE THE RETURN IS NOT YET AVAILABLE ON ASX ONLINE BUT WILL BE ONCE THE RULE AMENDMENTS TAKE EFFECT**). Instructions on completing the return are included within the form itself.

(B) Lodgement and Authorisation Requirements

The **Business Activities Return** must be signed by one director. A scanned copy of the signed return must be emailed to CRATeam@asx.com.au.

(c) Returns Lodgement

(i) Electronic Format

Counterparty Risk Assessment has prepared a User Guide for the RLM system. As this guide changes from time to time to reflect amendments to the system, the User Guide is not included in this Handbook.

A copy of the User Guide is available via the “Help” function in the RLM system or can be downloaded from the ASX Online website (<https://www.asxonline.com>).

The due dates for all returns are detailed below.

(ii) Returns Lodgement Timetable and Late Fees

The following lodgement dates must be complied with by all Participants. As noted below, fees apply to returns that are not lodged by the due date.

| Return | Due ¹ | Late Lodgement Fee ² |
|---|---|--|
| Adhoc Return Prescribed under Rule S1.3.1 | As requested by ASX Clear under Rule S1.3.2 | \$275 (inclusive of GST) per Business Day the return is late |
| Adhoc Return Prescribed under Rule S1.2.2(2)(a) | Within one Business Day of notifying ASX Clear under the provisions of Rule S1.2.2(1) | \$275 (inclusive of GST) per Business Day the return is late |

| Return | Due ¹ | Late Lodgement Fee ² |
|---|--|--|
| Daily Returns – Adhoc or Summary Capital Liquidity Return Prescribed under Rule S1.2.2(2)(b) | 10am on each Business Day whilst the provisions of Rule S1.2.2(2)(b)(ii) apply | \$275 (inclusive of GST) per Business Day the return is late |
| Weekly Returns – Adhoc or Summary Capital Liquidity Return Prescribed under Rule S1.2.2(2)(b) | 10am on the Monday, return prepared as at the close of business each Friday, whilst the provisions of Rule S1.2.2(2)(b)(i) apply | \$275 (inclusive of GST) per Business Day the return is late |
| Capital Liquidity Return Prescribed under Rule S1.3.1 | 5.00pm on the 10 th Business Day of the month following the reporting month | \$275 (inclusive of GST) per Business Day the return is late |
| <u>Business Activities Return</u> <u>Prescribed under Rule S1.3.1</u> | <u>5.00pm on the 15th Business Day of the month following the end of the reporting quarter</u> | <u>TBD</u> |
| Annual Audited Return ³ Prescribed under ASX Clear Rule 4.4, 4.5 and Rule S1.3.1 | 5.00pm on the last Business Day of the third month following the end of the reporting period | \$275 (inclusive of GST) per Business Day the return is late |

¹ **Due Dates**

Due dates are prescribed under Rule S1.3.1(2) and, in the case of the annual audited return, ASX Clear Rules 4.4.3 and 4.5.7.

² **Late Lodgement Fees**

Late lodgement fees are prescribed under ASX Clear Rule 1.18.

Late lodgement fees set out in this table are current at the date of this Handbook, but may change. (Any changes to the late lodgement fee structure will be notified by ASX Clear via Notice).

Should any return remain outstanding beyond the due date, disciplinary action may be taken.

³ **Annual Audited Return**

All Participants should lodge the documents as specified in the section on the Annual Audited Return above.

(iii) Other Acceptable Signatories for Corporations

Returns are required to be authorised by a director/s of the Participant as outlined in section (b) above. It would be acceptable for an alternate director to authorise a return once the Participant has advised ASX Compliance of the appointment details of the alternate director and provided a statement that the Participant's constitution permits the appointment of the alternate director. An alternate director is a specific term under section 201K of the Corporations Act 2001 and means a person who has been appointed to exercise some or all of a director's powers (usually when a director is unable to do so

themselves). Section 201K(3) provides that where an alternate director exercises those powers, it is as if the director has exercised it themselves.

Please note that in order for an alternate director to authorise the return their RLM user account must be set up with the role of 'Participant Director'. As with all RLM user accounts, this needs to be activated by ASX Counterparty Risk Assessment. Please refer to the RLM User Guide for further details.

However, it is not acceptable for returns to be authorised by a person (non-director) that has been delegated authority under a power of attorney. This is because a director cannot delegate a personal responsibility such as signing capital returns.

(iv) Procedures for Granting Extensions to Returns Lodgement

To ensure that requests for extensions are processed and monitored efficiently, and late returns are accurately determined, ASX Clear requires that Participants observe the following procedures when seeking an extension for the lodgement of returns.

Prior to the due date, a Participant seeking an extension must email a request through to CRATeam@asx.com.au. Participants must include in the email:

1. reason for the late lodgement of the return,
2. the revised date for lodgement. It is unlikely that an extension for a monthly return will be granted for more than two Business Days. If the return is received after the revised due date then a late lodgement fee will apply from this revised date.

ASX Clear will respond to the Participant via return email to confirm the receipt of the email and to approve or refuse the extension. Until such time as the Participant receives this confirmation, **an extension has not been granted**.

Extensions will not be granted by telephone. It is the responsibility of the Participant to ensure it does not assume an extension has been granted until confirmation has been received via email. This procedure will assist both ASX Clear and Participants by creating an audit trail of extensions requested and granted.

ASX Clear will be monitoring closely the frequency for which Participants request extensions for lodgement of returns. ASX Clear will take into account valid reasons for granting extensions and this will only be in respect of isolated and extraordinary circumstances. Further, ASX Clear expects that the Participant has sufficient resources to ensure that returns can be completed at any time and that the process is not reliant on one employee within the organisation.

(d) Indicative Timetable of Pages Requiring Completion

Note that the Business Activities Return is excluded from this table.

| Page Description | RLM Ref. | Adhoc Return | | | Summary Capital Liquidity Return | | | Capital Liquidity Return | Annual Audited Return |
|---|----------|--------------|-------|--------|----------------------------------|--------|--------|--------------------------|-----------------------|
| | | Ad Hoc | Daily | Weekly | Ad Hoc | Daily | Weekly | Monthly | Annually |
| Adhoc Return | N/A | ✓ | ✓ | ✓ | | | | | |
| Profile | PRO | | | | ✓ | ✓ | ✓ | ✓ | ✓ |
| Counterparty Risk Requirement | CRR | | | | ✓ 1 | ✓ 1 | ✓ 1 | ✓ 1 | ✓ 1 |
| Position Risk Requirement | PRR | | | | ✓ 1 | ✓ 1 | ✓ 1 | ✓ 1 | ✓ 1 |
| Large Exposure Risk Requirement | LRR | | | | ✓ 1 | ✓ 1 | ✓ 1 | ✓ 1 | ✓ 1 |
| Underwriting Risk Requirement | URR | | | | N/A | N/A | N/A | N/A | N/A |
| Non-Standard Risk Requirement | NRR | | | | ✓ 1 | ✓ 1 | ✓ 1 | ✓ 1 | ✓ 1 |
| Operational Risk Requirement Calculation | ORR | | | | ✓ | ✓ | ✓ | ✓ | ✓ |
| Income Statement | ICS | | | | ✓ | ✓ | ✓ | ✓ | ✓ |
| Balance Sheet | BAL | | | | ✓ | ✓ | ✓ | ✓ | ✓ |
| Balance Sheet Details ³ | BSD | | | | ✓ | ✓ | ✓ | ✓ | ✓ |
| Core Capital, Liquid Capital, Liquid Margin and Ratio | | | | | ✓ | ✓ | ✓ | ✓ | ✓ |

| Page Description | RLM Ref. | Adhoc Return | | | Summary Capital Liquidity Return | | | Capital Liquidity Return | Annual Audited Return |
|---------------------------------------|----------|--------------|-------|--------|----------------------------------|-------|--------|--------------------------|-----------------------|
| | | Ad Hoc | Daily | Weekly | Ad Hoc | Daily | Weekly | Monthly | Annually |
| Additional Comments | ADD | | | | ✓ | ✓ | ✓ | ✓ | ✓ |
| Credit Facilities & Overdraft | CFO | | | | | | | ✓ | |
| Directors Statement | DRD | | | | ✓ | ✓ | ✓ | ✓ | ✓ |
| Audit report on financial information | N/A | | | | | | | | ✓ |
| Statutory accounts | N/A | | | | | | | | ✓ 2 |

¹ If exposure exists.

² If required to be prepared under the Corporations Act 2001 (or equivalent laws for foreign Participants).

³ Cash & Cash Equivalents, Related/Associated Persons, Underwriting/Guarantees, Other Contingent Liabilities and Lease Commitments, Other Assets, Legal/Insurance/Encumbrances.