



# Proposed changes to capital requirements for ASX Clear Participants

## Response to Consultation

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## 1. Introduction

On 14 October 2020, ASX published a [Consultation Paper](#) which proposed a consolidation of the two capital measures that non-bank ASX Clear participants are required to maintain as per Schedule 1 of the ASX Clear Operating Rules, that being Core Capital and Liquid Capital, into a single capital measure.

The proposed new single capital measure was developed to ensure that participants' capital is held in an appropriate set of assets so that it is readily available to the participant if required. Since the current definition of Liquid Capital already reflects capital that is available for use by the participant, the Consultation Paper proposed that there is only one measure of capital, this being an adjusted Liquid Capital.

This single measure of capital is to be assessed against the higher of the participant's Core Requirement (currently referred to as Minimum Core Capital Requirement ("MCCR")) and its Total Risk Requirement ("TRR"). The proposal effectively means that the capital calculated using a risk-based approach (the TRR) is being floored at the level of the MCCR – any excess of the MCCR over the TRR is effectively a buffer over and above the capital calculated on actual risks faced by the clearing participant at a particular point in time.

Adjusted Liquid Capital utilises the current definition of Liquid Capital, but with a limit on the amount of Approved Subordinated Debt ("ASD") that can be included (under the current rules there is no restriction on how much ASD can be included in Liquid Capital). The introduction of a limit on ASD is intended to ensure that each participant maintains a minimum level of capital in the form of equity and to prevent the possibility of a participant meeting its capital requirement by the disproportionate use of subordinated debt. ASX is aware that participants do use ASD as a relatively quick way of increasing Liquid Capital when there is a spike in their TRR, for instance due to a large trade. In light of this, the Consultation Paper proposed that ASX will have the discretion to allow a higher amount of ASD to be included in the Liquid Capital for a certain period (e.g. one month), following a request by a participant.

## 2. Feedback from consultation

Seven written submissions were received in response to the Consultation Paper, and bilateral meetings were also held between ASX and those participants most directly impacted by the proposed changes. ASX would like to thank those who have provided feedback on the Consultation Paper.

Overall, participants were supportive of the proposals outlined in the Consultation Paper subject to some specific feedback addressed below.

Based on the feedback received, ASX acknowledges that certain aspects of the proposal can be calibrated further to ensure fairness across different types of business models whilst ensuring that the main objective of uplifting the quality of assets held by participants continues to be upheld. In light of this, ASX is making the following modifications to the proposal:

- an alternate framework for low risk direct participants; and
- a change to the limit on the amount of ASD that can be included in Liquid Capital.

The following sections provide an outline of feedback raised by participants in their responses, as well as ASX's response to the feedback.

Revised draft rule amendments are included in Appendix A. Appendix A also incorporates the miscellaneous rule amendments discussed in section 2.5 of this paper.

Participants are also advised that amendments will need to be made to the pro forma auditor's report set out in ASX Clear Operating Rules Procedure Annexure 4.4.3-1. The revised version is not yet available as it is dependent on changes

to the return format in the Return Lodgement and Monitoring (RLM) system. ASX will provide further details on this when available.

## 2.1. Alternate framework for low risk direct participants

Summary of feedback	ASX Response
In the case where a participant's TRR is constantly very low, an assessment against the Core Requirement can result in an excessive capital requirement	Facilitate an alternate framework for low risk direct clearing participants.

The proposed single capital measure requires Liquid Capital, which is a potentially narrower definition of capital than Core Capital, to be assessed against the maximum of Core Requirement and TRR.

Feedback was received noting that, where a participant's TRR is constantly very low, which indicates a low inherent risk profile, an assessment against the Core Requirement can result in an excessive capital requirement.

In considering this feedback, ASX recognises that there is merit in the feedback that the buffer imposed on low risk participants (in the form of having the Core Requirement as a 'floor' Liquid Capital amount) is higher than is reasonable. ASX therefore considers it is appropriate to apply a differentiated level of minimum capital on direct clearing participants with constantly low TRR figures.

### 2.1.1 Eligibility criteria for alternate framework

ASX proposes that low risk direct participants are eligible to apply to be subject to an alternate framework based on the current dual capital measures, subject to certain criteria as follows:

- the participant has a rolling-12 month average TRR figure less than 5% of their Core Requirement;
- the participant has been a participant of ASX Clear for a minimum of five consecutive years;
- the participant is currently a Direct Participant; and
- over the past five years, no matter or matters have arisen which, in isolation or in aggregate, cause ASX Clear to consider, at its absolute discretion, that it is not appropriate for the participant to be subject to the alternate framework.

General participants will not have the option to be assessed under the alternate framework on the basis that third party clearers are not considered low risk participants.

Guidance will be included in the Capital Liquidity Handbook on the factors that will be considered in assessing whether it is appropriate for a participant to be approved for the alternate framework. ASX will consider a broad range of relevant matters in making such determination and this will include factors such as whether there have been any:

- significant breaches of the ASX Clear minimum capital requirements; or
- significant adverse enforcement outcomes or open enforcement referrals; or other identified significant potential non-compliance with the operating rules of ASX's licensed markets or clearing and settlement facilities, by the participant or any of its related bodies corporate over the previous five years.

### 2.1.2 Cessation of eligibility for alternate framework

The intention is that the alternate framework would cease to apply to participants if:

- their Core Requirement increases (as identified through the quarterly assessment process) above what it was at the time of approval of the application of the alternate framework to them; or
- their rolling-12 month average TRR figure increased to 5% or more of their Core Requirement; or
- they become a General Participant; or

- any matter has arisen which causes ASX to consider that it is no longer appropriate for the participant to be subject to an alternate framework.

Participants would then be given an appropriate transitional period to move across to the single capital measure approach. The transitional period would not apply if a participant becomes a General Participant, in which case the single capital measure approach would apply at the time they are admitted as a General Participant.

## 2.2. Capital requirement for third party clearers

Summary of feedback	ASX Response
Core Requirement is seen by some participants as an arbitrary benchmark, and is disproportionately burdensome for third party clearers.	No changes to be made at this time. Review to be undertaken as a separate exercise.

Some respondents noted that the Core Requirement can be seen as an “arbitrary benchmark” and the new single capital measure is disproportionately burdensome for third party clearers since they have a higher Base Requirement apply to them even though they may clear a substantially smaller portion of the market (by value) than self-clearers. The proposed move to a single capital measure has essentially magnified concerns about the existing core capital requirement for third party clearers.

Given the feedback received, ASX intends to conduct a review of the capital requirements for third party clearers. This will be conducted as a separate exercise and will not be part of the implementation of the proposed single capital measure.

## 2.3. Limit on amount of ASD to be included in Liquid Capital

Summary of feedback	ASX Response
The proposal to limit the amount of ASD that can be included in Liquid Capital to the amount of a participant’s Core Capital less \$5m is seen to be unnecessarily restrictive.	Facilitate a tiered approach to the ASD limit based on level of Core Capital.

Under ASX’s original proposal, the maximum amount of ASD to be included in Liquid Capital would be the amount of Core Capital held by the participant in excess of \$5m. Feedback was received that this is unnecessarily restrictive.

ASX acknowledges that the initial proposed limit may not be as appropriate for participants with a higher amount of Core Capital, however ASX does believe that the initial calibration remains appropriate for participants with a lower level of Core Capital. As such, ASX intends to introduce a tiered approach to the ASD limit based on level of Core Capital, as follows:

Core Capital	ASD limit
Up to and including \$5m	Zero
Greater than \$5m and up to and including \$20m	100% of (Core Capital – \$5m)
Greater than \$20m and up to and including \$40m	\$15m + 300% of (Core Capital – \$20m)
Over \$40m	\$75m + 500% of (Core Capital – \$40m)

The limit on the amount of ASD that can be included in Liquid Capital will not apply to low risk direct participants that are subject to the alternate framework outlined in section 2.1 above.

Specific questions in relation to the ASD limit were also received as part of respondents' feedback, as set out below together with ASX's responses:

- **Q: When the ASD limit has been reached, will actual cash repayment of the ASD surplus (above the limit) be required?**

A: The surplus of ASD over the limit does not need to be repaid to the lender. It can be retained as a drawn-down amount and still constitutes ASD but will not count towards Liquid Capital.

- **Q: How should the surplus of ASD over the limit be disclosed in the Balance Sheet within the Capital Liquidity Return? Should this be treated as borrowings/other liabilities?**

A: The full amount of drawn-down ASD should still be disclosed in the Approved Subordinated Debt lines in the liabilities section of the Balance Sheet in the capital returns. It is anticipated that the Liquid Capital section of the return will be modified such that it will no longer automatically take a feed from the Balance Sheet section, but rather participants will need to input the amount of ASD that is counted towards their Liquid Capital (which cannot be more than the limit).

- **Q: Administratively how will the change in ASD balance be tracked and communicated?**

A: It will be up to individual participants to monitor the inclusion of ASD in Liquid Capital (up to the limit, which is based on their Core Capital level).

## 2.4. Temporary increase in amount of ASD allowed to be included in Liquid Capital

Summary of feedback	ASX Response
The need for ASX to provide clarity on the process for obtaining approval for a temporary increase and particular concerns around the risk of non-approval.	ASX has developed a proposed approval process where a temporary increase is required, although it expects there will be less need for participants to seek a temporary increase given the change to the limit outlined in section 2.3. Revisions to the drafting of Rule S1.2.4(8) and new Rules S1.2.4(9) and S1.2.4(10) are also proposed to accommodate the process and timing for a temporary increase on a case by case basis as required.

### 2.4.1 Process for obtaining approval for a temporary increase in amount of ASD

A number of respondents expressed concerns about the uncertainty of approval being granted by ASX and requested clarification on the factors to be taken into consideration by ASX, as well as the timeframe and process for seeking approval.

The revisions to the limit on the amount of ASD that can be included in Liquid Capital (as outlined in section 2.3 above) should largely allay the concerns raised by respondents on this matter. This is because the maximum amount of ASD that can be included in Liquid Capital will increase for the majority of participants. For some of these participants, the new maximum will be substantially higher and, indeed, will be significantly higher than the facility limits specified in their subordinated debt documentation.

Notwithstanding this, ASX is of the view that it is appropriate to retain the ability for ASX to exercise discretion and allow a temporary increase.

#### 2.4.1.1 Approval process

An outline of the approval process is as follows:

- A participant needs to submit a completed request form to ASX (this form is currently being developed). If a drawdown of subordinated debt is also required, the request form should be submitted at the same time as a completed Notification of Advance.
- Request should be made prior to the participant's Liquid Capital falling below the minimum requirement.
- ASX to consider the request on a timely basis. While no explicit timeframe will be specified, ASX will process such requests as a priority in the same way that is currently done for a subordinated debt drawdown request. Unless the request is submitted late in the day or there are issues with the documentation, ASX typically replies within a few hours.
- ASX to consider if any conditions or limitations should be attached to the approval.
- ASX will reply in writing either granting the approval (including any conditions or limitations attached to the approval and the duration of the approval) or rejecting it (in which case the reason for not approving the request will be set out in the letter). If approval is granted and drawdown is required, ASX will execute the Notification of Advance at the same as the granting of approval.

#### 2.4.1.2 Assessment considerations

The key factors that ASX will consider when assessing a request are:

- Reason for the request – ASX is generally minded to approve a request if the reason is that the participant anticipates a potential increase in their TRR due to a specific proposed transaction or due to general market volatility. A request will not be approved if the reason is to address a deterioration in the participant's financial position – a participant whose capital is being eroded due to ongoing losses would be expected to replenish that capital with equity rather than ASD.
- Duration – approval for a temporary increase will only be given for up to one month.
- The participant's history of compliance with minimum capital requirements.

Approvals of a temporary increase in ASD are not applicable where the participant's Liquid Capital Requirement is its Core Requirement. Participants are generally given a minimum of six months' notice of an increase of such Core Requirement.

#### 2.4.2 Amendment to draft Rule S1.2.4(8)

A respondent noted that the drafting of Rule S1.2.4(8) appears to propose ASX approval only applies where a participant were to experience a TRR that would cause it not to hold sufficient Liquid Capital causing it to breach its obligations under the rules, i.e. the drafting could be interpreted as a participant first needing to breach its obligations before approval is granted. This is not ASX's intention. To avoid potential enforcement action however, approval should be sought with sufficient time ahead of a potential breach to allow for that approval to be obtained prior to a breach occurring.

As part of its approval to a temporary increase in ASD, ASX Clear will specify the duration of the approval. Where approval has been granted while the participant is still in compliance with the minimum Liquid Capital Requirement, ASX Clear intends that such duration commence only from the time that Liquid Capital would otherwise fall below the higher minimum requirement (driven by the TRR). Accordingly, the higher amount of ASD approved by ASX will only be able to be included in Liquid Capital from that time. It is possible that approval may be granted but the higher ASD limit never utilised for the purpose of calculating the participant's Liquid Capital as it was not actually required (that is, if the anticipated increase in TRR does not eventuate).

A situation could also possibly arise where a participant's Liquid Capital falls below its TRR and the participant subsequently seeks to use ASD to rectify the breach. In this situation, the participant may need to seek approval for a higher amount of ASD to be included in Liquid Capital in order to rectify the breach. Where ASX determines to approve a temporary increase to the participant's ASD pursuant to such request, the approval will only serve to rectify the breach from the time approval is granted unless otherwise specified by ASX Clear. It is not ASX Clear's intention to backdate approvals. Any breach by a participant of its obligations under the capital requirements set out in Schedule 1 to the ASX Clear Operating Rules which occurs prior to such approval will be dealt with as per ASX's usual disciplinary processes.

ASX has amended the drafting of Rule S1.2.4(8) and included new Rules S1.2.4(9) and S1.2.4(10) to better reflect the above approach.

## **2.5. Miscellaneous amendments**

No feedback was received on the miscellaneous amendments included in section 3.4 and Appendix B of the Consultation Paper.

ASX will proceed with these amendments with only one change being made to Annexure 5, Table 2.1 (which shows counterparty risk weightings). The table is being changed to reflect the introduction of the ASIC Market Integrity Rules (Capital) 2021 which will replace in full the Market Integrity Rules (Securities Markets – Capital) 2017 and Market Integrity Rules (Futures Markets – Capital) 2017 in June 2022.

As noted in section 2, the miscellaneous amendments have been included in the draft rule amendments shown in Appendix A.

## **3. RLM system changes and implementation timetable**

As noted in the Consultation Paper, the implementation of these changes will also require changes to the RLM system. ASX will provide further details on the RLM system changes as they become available.

The implementation of the rule amendments is subject to regulatory clearance but is also dependent on the timing of the required system changes. The implementation timing is therefore uncertain at this stage but will be no earlier than February 2023. ASX will advise the market when there is more certainty on the timing.

# ASX CLEAR OPERATING RULES

## 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 DEFINITIONS AND INTERPRETATION

#### S1.1.1 **Definitions and Interpretation**

In Rule S1, unless the context otherwise requires:

...

**“Base ~~Core Capital Requirement~~”** means the amount specified in Rule S1.2.1(2)(~~ab~~)(i) (Table A or Table B), as applicable.

Introduced 15/12/17

...

**“Core Requirement”** means the sum of the Base Requirement and the amounts specified in Rules S1.2.1(2)(b), (c) and (d) as applicable.

...

**“Dual Capital Participant”** means a Participant that has been approved by ASX Clear as a Dual Capital Participant under Rule S1.1A.1 and the approval has not been revoked by ASX Clear under Rule S1.1A.4.

...

**“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 and/or clear 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~~31 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

...

**“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 or, ~~s~~State (including ~~t~~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

...

**“Liquid Capital”** means:

(a) the sum of:

- (ia) Core Capital;
- (iib) cumulative Preference Shares;
- (iiie) Approved Subordinated Debt, subject to paragraph (b) below; and
- (ivd) revaluation reserves other than Financial Asset and Liability Revaluation Reserves;

less the sum of:

- (ve) Excluded Assets;
- (vif) Excluded Liabilities.

(b) The maximum amount of Approved Subordinated Debt that can be included in a Participant's Liquid Capital under paragraph (a)(iii) above is limited to the amount specified in Rule S1.2.4(8), unless the Participant is a Dual Capital Participant.

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

“Liquid Capital Requirement” means the Core Requirement or the Total Risk Requirement, whichever is the greater.

“Liquid Margin” means the amount calculated by deducting:

- (a) the Liquid Capital Requirement amount from the amount of Liquid Capital, for a Participant that is not a Dual Capital Participant; or
- (b) the amount calculated by deducting the Total Risk Requirement amount from the amount of Liquid Capital, for a Participant that is a Dual Capital Participant.

...

“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.~~ ~~[Deleted]~~;

- (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 ~~fully collateralised~~ 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, ~~s~~State and regional governments and OECD public sector entities.

...

**“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 ~~and/or clear~~ 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~~31 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.

...

## S1.1A DUAL CAPITAL PARTICIPANTS

### S1.1A.1 Application and approval

- (1) A Participant may apply to ASX Clear to be approved as a Dual Capital Participant for the purposes of the Risk Based Capital Requirements set out in this Schedule 1.
- (2) ASX Clear may approve a Participant as a Dual Capital Participant if the Participant satisfies the criteria set out in Rule S1.1A.2.
- (3) An approval by ASX Clear under this Rule S1.1A.1 will be:
  - (a) effective from the date determined by ASX Clear in connection with the approval; and
  - (b) subject to any conditions and limitations that ASX Clear may specify in connection with the approval (including in connection with the effective date for the approval).

### S1.1A.2 Criteria

- (1) To be eligible to be approved as a Dual Capital Participant, the Participant must meet the following criteria:
  - (a) the rolling 12 month average of the Participant's month-end Total Risk Requirement is less than 5% of its Core Requirement;
  - (b) the Participant has been a Participant of ASX Clear for at least five consecutive years;
  - (c) the Participant is a Direct Participant; and
  - (d) during the past five years, no matter or matters have arisen which, in isolation or in aggregate, cause ASX Clear to consider, at its absolute discretion, that it is not appropriate for the Participant to be a Dual Capital Participant for the purpose of the Risk Based Capital Requirements set out in this Schedule 1.

### S1.1A.3 Applicable Risk Based Capital Requirements

- (1) Where a Participant is a Dual Capital Participant, then the Risk Based Capital Requirements set out in this Schedule 1 that are specified to:
  - (a) not apply to Dual Capital Participants, will not apply to that Participant; or
  - (b) apply to Dual Capital Participants, will apply to that Participant.
- (2) Other than as set out in Rule S1.1A.3(1) above, the Risk Based Capital Requirements set out in this Schedule 1 will apply to a Participant that is a Dual Capital Participant in the same way as they apply to a Participant that is not a Dual Capital Participant.

### S1.1A.4 Cessation of approval

- (1) In the event that:

- (a) the rolling 12 month average of the Participant's month-end Total Risk Requirement is 5% or more of its Core Requirement;
  - (b) the Participant becomes a General Participant;
  - (c) the Participant's Core Requirement has increased (as identified through the quarterly assessment referred to in Rule S1.2.1(3)(b)) to an amount above the Core Requirement applicable at the time ASX Clear approved the Participant as a Dual Capital Participant; or
  - (d) any matter or matters have arisen which, in isolation or in aggregate, cause ASX Clear to consider, at its absolute discretion, that it is no longer appropriate for the Participant to be a Dual Capital Participant for the purpose of the Risk Based Capital Requirements set out in this Schedule 1.
- ASX Clear may revoke the approval of the Participant as a Dual Capital Participant.

(2) A revocation of approval by ASX Clear under this Rule S1.1A.4 will be:

- (a) effective from the date determined by ASX Clear in connection with the revocation; and
- (b) subject to any conditions and limitations that ASX Clear may specify in connection with the revocation (including in connection with the effective date for the revocation).

(3) In determining the effective date for the revocation, ASX Clear may allow a transitional period as ASX Clear considers appropriate for the Participant to comply with the Risk Based Capital Requirements as they apply to Participants that are not Dual Capital Participants.

(4) ASX Clear will, as soon as practicable, notify the Participant of the revocation of its approval as a Dual Capital Participant and the effective date of that revocation.

## S1.2 OBLIGATIONS OF PARTICIPANTS

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

(1) ~~Unless the~~ Participant ~~is a Dual Capital 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~~ Liquid Capital 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;~~

(1A) A Participant that is a Dual Capital Participant 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 its Core Requirement.

(2) For the purpose of determining a Participant's Core Requirement:

(a)

Table A – Direct Participants – Base <del>Core Capital</del> Requirement
\$5,000,000

Table B – General Participants – Base <del>Core Capital</del> 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.

(b) 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.(i)~~ to be de minimis - \$0;

~~B.(ii)~~ not to be de minimis or material - \$2,500,000;

~~C.(iii)~~ to be material - \$5,000,000.

(c) for a Participant undertaking own account business, as described in the Procedures, which ASX Clear has determined:

~~A.(i)~~ to be de minimis - \$0;

~~B.(ii)~~ not to be de minimis or material - \$2,500,000;

~~C.(iii)~~ to be material - \$5,000,000.

(d) for a Participant undertaking non-ASX client activity, as described in the Procedures, which ASX Clear has determined:

~~A.(i)~~ to be de minimis - \$0;

~~B.(ii)~~ not to be de minimis or material - \$2,500,000;

~~€(iii)~~ to be material - \$5,000,000.

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

- (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 amounts~~ in respect of a Participant's Core Requirement under those Rules will be assessed quarterly by ASX Clear (or at such other time at ASX Clear's discretion);
- (c) where:

(i) the Participant is not a Dual Capital Participant;

(ii) the Participant's Liquid Capital Requirement is the Core Requirement (or becomes the Core Requirement as a result of an assessment referred to in paragraph (b) above); and

(iii) as a result of an assessment referred to in paragraph (b) above, ASX Clear determines ~~that additional Core Capital is required an~~ increase in the Core Requirement in respect of ~~the~~ 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 increase in the Core Requirement to ensure that its Core Liquid Capital complies with such additional requirement increase. Subject to paragraph (ed) below, ASX Clear will give not less than 6 months' notice of such additional requirement increase;~~

(d) where:

(i) the Participant is a Dual Capital Participant; and

(ii) as a result of an assessment referred to in paragraph (b) above, ~~ASX Clear determines an increase in the Core Requirement in~~ respect of the Dual Capital Participant under those Rules,

the Dual Capital Participant will have until the date specified in the notice provided to the Dual Capital Participant of the increase in the Core Requirement to ensure that its Core Capital complies with such increase. Subject to paragraph (e) below, ASX Clear will give not less than 6 months' notice of such increase;

(ed) 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 Clear may give less than 6 months' notice of any ~~additional Core Capital required~~ increase in the Core Requirement.

(43) For the purpose of making a determination on materiality pursuant to Rule S1.2.1(1)(b)(iii)(C)(2)(c)(iii) and Rule S1.2.1(1)(b)(iv)(C)(2)(d)(iii), ASX Clear may rely on any self-declaration of materiality provided by the Participant.

### S1.2.2 Notifying ASX Clear

- (1) ~~Unless the~~ A Participant ~~is a Dual Capital Participant, it~~ must notify ASX Clear immediately if its ~~Liquid Capital divided by its Liquid Capital Requirement is equal to or falls below 1.2.~~
- ~~(1A) A Participant that is a Dual Capital Participant must notify ASX Clear immediately if its:~~
- ~~(a) Core Capital is at any time less than its Core Requirement; ~~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) ~~or Rule S1.2.2(1A) (as applicable);~~ and
  - (b) from then on, either:
    - (i) weekly, for so long as the amount referred to in Rule S1.2.2(1) ~~or Rule S1.2.2(1A)(b) (as applicable)~~ 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) ~~or Rule S1.2.2(1A)(b) (as applicable)~~ is 1.1 or less.

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

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### 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:
- (a) ~~Total Risk Requirement~~Liquid Capital Requirement is capable of continuing to be greater than 1.2 on repayment, for a Participant that is not a Dual Capital Participant; or-
  - (b) ~~Total Risk Requirement~~ is capable of continuing to be greater than 1.2 on repayment, for a Participant that is a Dual Capital Participant.
- (8) The maximum amount of Approved Subordinated Debt that can be included by a Participant in its Liquid Capital is the higher of:
- (a) the amount applicable to the Participant as set out in the Procedures; and
  - (b) if applicable, the amount approved by ASX Clear for the Participant to include in its Liquid Capital under Rule S1.2.4(9).
- (9) For the purpose of Rule S1.2.4(8)(b), if an increase in a Participant's Total Risk Requirement may cause or has caused the Participant to not hold sufficient Liquid Capital under Rule S1.2.1(1), then ASX Clear may give approval for the Participant to include in its Liquid Capital a higher amount of Approved Subordinated Debt than the amount specified in Rule S1.2.4(8)(a).
- (10) For the purpose of Rule S1.2.4(8)(b), an approval by ASX Clear under Rule S1.2.4(9):
- (a) will be effective from the time specified by ASX Clear in connection with the approval, or where no time is specified, from the time of the grant of the approval by ASX Clear;
  - (b) will cease to apply from the time specified by ASX Clear in connection with the approval; and
  - (c) will be subject to any conditions and limitations that ASX Clear may specify in connection with the approval (including in connection with the effective date for the approval).
- (11) Rules S1.2.4(8), S1.2.4(9) and S1.2.4(10) do not apply to a Dual Capital Participant.

### 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:
  - (a) Liquid Capital divided by its ~~Total Risk~~Liquid Capital Requirement is capable of continuing to be greater than 1.2 on redemption, for a Participant that is not a Dual Capital Participant; or-
  - (b) Liquid Capital divided by its Total Risk Requirement is capable of continuing to be greater than 1.2 on redemption, for a Participant that is a Dual Capital Participant.

Introduced 11/03/04

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## ANNEXURE 2 LARGE EXPOSURE RISK REQUIREMENT

### 2. ISSUER LARGE EXPOSURE RISK REQUIREMENT

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#### 2.2 Overview

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- (c) The methods referred to in clause 2.2(b) are summarised in the Tables below:

**Table 2**

	Equity Method				Risk amount
	Compared to Liquid Capital		Compared to Issue		
<b>Equity Net Position from transaction date</b>	If <del>E</del> equity <del>N</del> et <del>P</del> osition is $\leq 25\%$ , is a risk amount required?	If <del>E</del> equity <del>N</del> et <del>P</del> osition is $> 25\%$ , is a risk amount required?	If <del>E</del> equity <del>N</del> et <del>P</del> osition is $\leq 5\%$ , is a risk amount required?	If <del>E</del> equity <del>N</del> et <del>P</del> osition is $> 5\%$ , is a risk amount required?	Take the greater of <b>(a)</b> and <b>(b)</b>
	No	Yes <b>(a)</b>	No	Yes <b>(b)</b>	

**Table 3**

	Debt Method				Risk amount
	Compared to Liquid Capital		Compared to Issue		
<b>Debt Net Position from transaction date</b>	If <del>D</del> ebt <del>N</del> et <del>P</del> osition is $\leq 25\%$ , is a risk amount required?	If <del>D</del> ebt <del>N</del> et <del>P</del> osition is $> 25\%$ , is a risk amount required?	If <del>D</del> ebt <del>N</del> et <del>P</del> osition is $\leq 10\%$ , is a risk amount required?	If <del>D</del> ebt <del>N</del> et <del>P</del> osition is $> 10\%$ , is a risk amount required?	Take the greater of <b>(a)</b> and <b>(b)</b>
	No	Yes <b>(a)</b>	No	Yes <b>(b)</b>	

Table 4

	Equity and Debt Method		Risk amount
	Compared to Liquid Capital only		
Equity Net Position and Debt Net Position from transaction date	If <u>E</u> quity <u>N</u> et <u>P</u> osition and <u>D</u> ebt <u>N</u> et <u>P</u> osition is $\leq 25\%$ , is a risk amount required?  No	If <u>E</u> quity <u>N</u> et <u>P</u> osition and <u>D</u> ebt <u>N</u> et <u>P</u> osition is $> 25\%$ , is a risk amount required?  Yes (c), but only if a zero amount has been calculated in Table 2 or Table 3	Take (c)

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## ANNEXURE 3 POSITION RISK REQUIREMENT

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### 9. CALCULATION OF EQUITY NET POSITIONS

The Equity Net Positions are either the long or short positions resulting from offsetting equity positions and Equity Equivalents calculated in the following way:

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### 17. CALCULATION OF DEBT NET POSITIONS

The Debt Net Position is either the long or short position resulting from offsetting positions in Debt Instruments and Debt Derivatives in the following way:

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# ANNEXURE 5 TABLES

## 1. POSITION RISK

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Table 1.5

Rated Investment Grades		
	Minimum Ratings	
	<u>Securities Long Term</u>	<u>Money Market Obligations Short Term</u>
<b>For all issuers</b>		
Moody's Investors Services	Baa3	P-3
<u>S&amp;P Global Ratings Standard &amp; Poors Corporation</u>	BBB-	A-3
Fitch Ratings IBCA Ltd	BBB-	F-3
<b>For all banks, building societies and subsidiaries of banks (not otherwise eligible as Qualifying Debt Instruments)</b>		
Thomson Financial Bank Watch	BBB-	TBW-3
<b>For Canadian Issuers</b>		
Canadian Bond Rating Service	B+low	A-3
Dominion Bond Rating Service	BBB low	R-2
<b>For Japanese Issuers</b>		
Japan Credit Rating Agency Ltd	BBB-	J-2
Nippon Investor Services Inc	BBB-	a-3
The Japan Bond Research Institute	BBB-	A-2
Mikuni & Co	BBB	M-3
Fitch Investors Services Inc	BBB-	F-3
<b>For United States Issuers</b>		
Duff & Phelps Inc	BBB-	3
Fitch Investors Services Inc	BBB-	F-3

Table 1.6

Recognised Market Indexes			
Country	Index	Country	Index
Australia	S&P/ASX 200	Netherlands	<del>EOE 25</del> AEX
Austria	ATX	<del>Singapore</del>	<del>Straits Times Index</del>
Belgium	BEL 20	Spain	IBEX 35
Canada	<del>S&amp;P/TSX 60</del> TSE 35	Sweden	OMXS30
France	CAC 40	Switzerland	SMI
Germany	DAX	UK	FTSE 100, FTSE mid-250
Hong Kong	Hang Seng	USA	S&P 500
Italy	<del>FTSE MIB</del> MIB 30		
Japan	Nikkei 225		

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## 2. COUNTERPARTY RISK

Table 2.1

Risk Weightings	
	Counterparty
Central <del>b</del> Bank	0%
Central and <del>s</del> State <del>g</del> Government	10%
Banks Local <del>g</del> Governments Approved Deposit Taking Institutions (other than <del>b</del> Banks) <del>ASX Clear Participants that comply with the</del> Risk Based Capital Requirements — <del>ASX Clear Participants</del> — <del>ASX Market Participants</del> <del>Market participants that comply with the Risk-Based Capital Requirements as defined in the ASIC Market Integrity Rules (Capital) 2021 (as amended from time to time)</del>	20%
Approved Institutions <del>ASX Clear Participants that comply with the</del> NTA Requirements — <del>ASX Clear Participants</del> — <del>ASX Market Participants</del> <del>Participants of ASX Clear (Futures) Pty Limited that are not banks</del>	50%
Other	100%

In Table 2.1, references to ~~c~~Central ~~b~~Banks and ~~g~~Governments are references to OECD ~~c~~Central ~~b~~Banks and ~~g~~Governments. Non-OECD ~~c~~Central ~~b~~Banks and ~~g~~Governments are within the 'other' category of risk weighting.

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3. OTHER

Table 3.1

Recognised Non European Regulator	
Country	Regulator
<del>Australia</del>	<del>Australian Securities Exchange Limited</del>
Canada	<del>Investment Industry Regulatory Organization of Canada</del> <del>Alberta Stock Exchange</del> <del>Montreal Exchange</del> <del>Toronto Stock Exchange</del> <del>Vancouver Stock Exchange</del> <del>Investment Dealers Association of Canada</del>
Hong Kong	Hong Kong Monetary Authority Hong Kong Securities and Futures Commission
Japan	Financial Services Agency
<del>New Zealand</del>	<del>New Zealand Stock Exchange</del>
Singapore	Monetary Authority of Singapore <del>Singapore Exchange Securities Trading Limited*</del> <del>The Central Depository (Pte) Limited*</del> <del>Singapore Exchange Derivatives Trading Limited*</del> <del>Singapore Exchange Derivatives Clearing Limited*</del> <del>* Regulatory functions for SGX group undertaken by Singapore Exchange Regulation Pte Ltd (SGX RegCo)</del> <del>Stock Exchange of Singapore</del>
South Africa	<del>Bond Exchange of South Africa</del> Johannesburg Stock Exchange <del>South African Futures Exchange</del>
United States	Securities and Exchange Commission Commodity <del>and</del> Futures Trading Commission <del>Financial and Industry Regulatory Authority</del>

Table 3.2

Recognised European Regulator	
Country	Regulator
Austria	<del>Bundesministerium für Finanzen (Federal Ministry of Finance, Banking, Stock Exchange and Capital Market Supervision)</del> <del>Bundes-Wertpapieraufsicht (Austrian Securities Authority)</del> <u>Financial Market Authority</u>
Belgium	<del>Commission Bancaire et Financière</del> <u>Financial Services and Markets Authority</u>
Finland	Financial <u>Supervisory</u> <del>Supervision</del> Authority
France	<del>Autorité des marchés financiers (AMF) Comité des établissements de crédit et des entreprises d'investissements</del>
Germany	Bundesanstalt für Finanzdienstleistungsaufsicht (Federal Financial Supervisory Authority)
Greece	<del>The Bank of Greece</del> The <u>Hellenic</u> Capital Market Commission
Iceland	Central Bank of Iceland
Ireland	Central Bank of Ireland
Italy	Banca d'Italia <del>Commissione Nazionale per le Società e la Borsa (CONSOB)</del>
Liechtenstein	<del>Financial Market Authority</del> <u>Dienststelle für Bankenaufsicht</u>
Luxembourg	<del>Commission de Surveillance du Secteur Financier</del> <u>Institute Monétaire Luxembourgeois</u>
Netherlands	<del>Autoriteit Financiële Markten (AFM) (The Netherlands Authority for the Financial Markets) Securities Board of the Netherlands</del>
Norway	<del>Finanstilsynet (Financial Supervisory Authority of Norway) Kredittilsynet (the Banking, Insurance and Securities Commission of Norway)</del>
Portugal	Banco de Portugal (Central Bank)
Spain	<del>Banco de Espana (for Banks and Credit Institutions)</del> <u>Comision Nacional del Mercado de Valores (National Securities Market Commission)</u>

<u>Switzerland</u>	<u>Swiss Financial Market Supervisory Authority</u>
United Kingdom	<u>Prudential Regulation Authority (a division of the Bank of England)</u> <u>Financial Services Authority</u>

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# ASX CLEAR OPERATING RULES PROCEDURES

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## SCHEDULES TO ASX CLEAR OPERATING RULES

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

1. For the purposes of Rule S1.2.1-~~(1)(b)(ii)(2)(b)~~:
  - (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)(2)(c)~~, 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)(2)(d)~~, 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)(2)(c)~~ or S1.2.1-~~(1)(b)(iv)(2)(d)~~.
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)(2)(c)~~; or

- (b) non-ASX client activity undertaken by the Participant for the purposes of Rule S1.2.1 ~~(+)(b)(iv)(2)(d)~~,

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

PROCEDURE S1.2.4 APPROVED SUBORDINATED DEBT

For the purpose of Rule S1.2.4(8)(a), the amount of Approved Subordinated Debt that can be included by a Participant in its Liquid Capital is limited to the amount applicable to the Participant under the table below, based on the Participant's Core Capital at the relevant time:

<u>Participant's Core Capital</u>	<u>Approved Subordinated Debt limit</u>
<u>Up to and including \$5 million</u>	<u>Zero</u>
<u>Over \$5 million and up to and including \$20 million</u>	<u>100% of (Core Capital minus \$5 million)</u>
<u>Over \$20 million and up to and including \$40 million</u>	<u>\$15 million plus 300% of (Core Capital minus \$20 million)</u>
<u>Over \$40m</u>	<u>\$75 million plus 500% of (Core Capital minus \$40 million)</u>