



ASX 24 Exchange for Physical (EFP) Facility

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Interest Rate Derivatives

The purpose of this document is to explain the process, rules and reporting requirements for Exchange for Physical (EFP) transactions in ASX interest rate derivative products.

ASX 24 EFP Facility

The ASX 24 EFP facility is an off-market trading mechanism that enables customers to simultaneously swap futures market contract exposure for an offsetting physical position. The “physical” in EFPs can be securities such as government or corporate bonds and over-the-counter (OTC) derivatives such as interest rate swaps. It offers the flexibility and certainty of an OTC market, plus the counterparty guarantee of an exchange market for the futures contract component.

The operation of the ASX 24 EFP facility is subject to the ASX 24 Operating Rules, the ASIC Market Integrity Rules (ASX 24 Market) and the Corporations Act 2001 (Cth).

EFP Eligibility

In summary, an EFP can only be registered where:

- it is an approved EFP interest rate product combination (as listed in the table on page 4);
- there are only two parties to the transaction and the parties to the transaction are not from the same organisation trading for the same account;
- the buyer of the futures contract is the seller of the physical instrument and the seller of the futures contract is the buyer of the physical instrument;
- the futures transaction must meet the contract specifications for the relevant contract;
- the EFP includes a bona fide physical transaction and there is no intention to reverse or cancel the physical deal once the futures contract is registered unless the EFP specifically relates to a primary issuance of bonds into the market, in which case it needs to comply with matters outlined in the ASX Operating Rules; and
- the basis of the notional value of the offsetting OTC instrument and futures contract must be ‘substantially similar’ in value (price value of a basis point match used for interest rate products) and be reasonably correlated.¹ For interest rate derivatives the notional values must have a difference of no greater than 10%.

Other guidance on EFPs

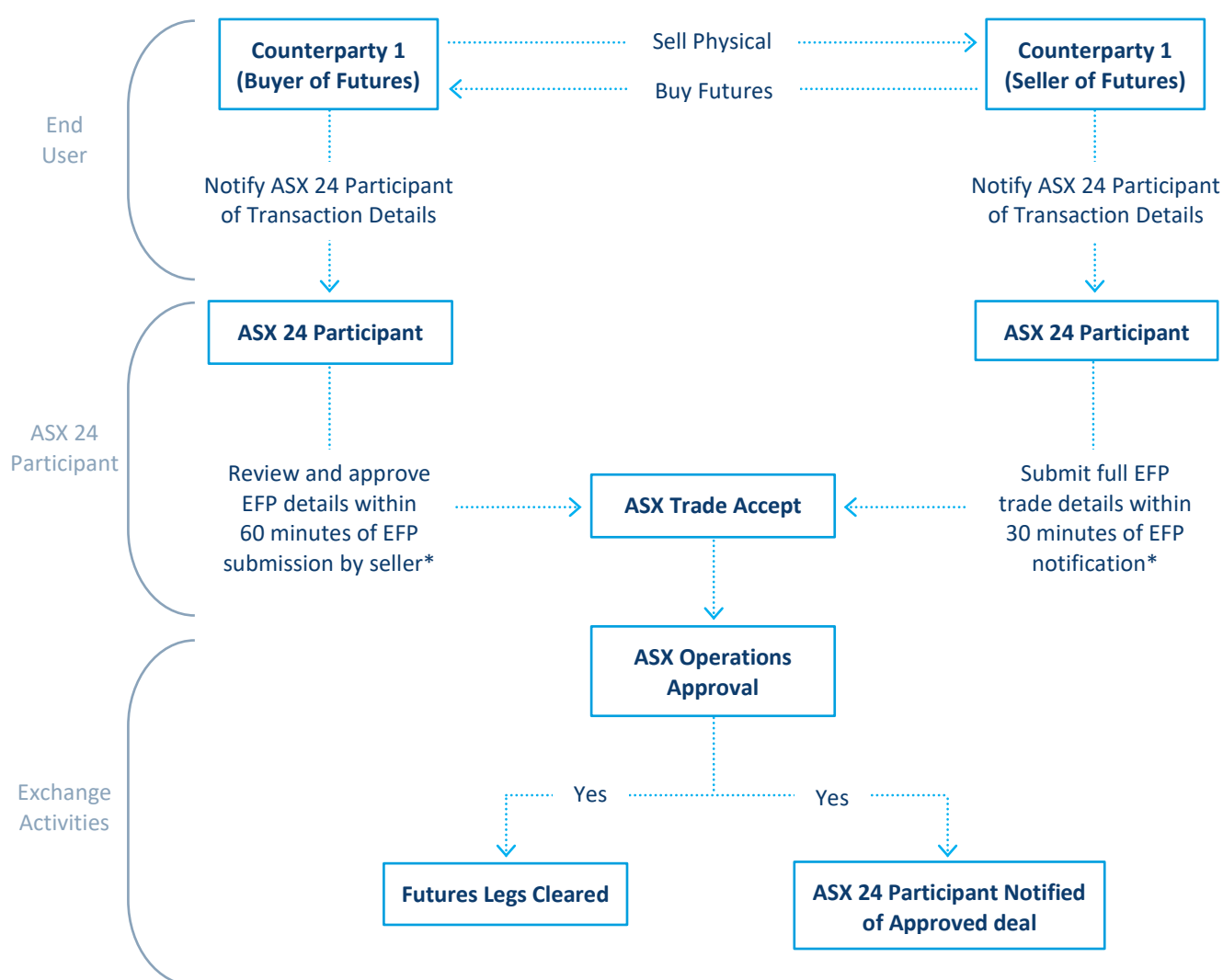
- Each party to an EFP transaction must retain satisfactory evidence, which demonstrates:
 - the existence of a bona fide physical transaction; and
 - where applicable, the nature of the relationships between the parties.
- Each party to an EFP transaction may be required to provide evidence of the OTC transaction to the Trading Participant upon request.

¹ For example, if the tick value of the physical is calculated to be \$3,100 and the tick value of a single ASX 3 Year Treasury Bond Futures is \$31 then 100 (3,100/31) ASX 3 Year Treasury Bond Futures would need to be bought in order to hedge the physical.

- An EFP does not have a minimum lot size threshold.
- EFPs do not need to be traded at or between the current bid or offer, however where futures prices are substantially different to current market prices, ASX will require the Trading Participants to provide a satisfactory reason why the parties wish to trade at the stated price. ASX reserves the right to reject an EFP.
- EFPs not conducted in accordance with the ASX 24 Operating Rules will be subject to cancellation and the Trading Participants subject to sanction.

EFP Workflow:

The following diagram depicts the workflow associated with the executed EFP transactions that are submitted through ASX TradeAccept:



*For EFPs agreed between 4.30pm and 7.00am Australian Eastern Standard Time (AEST), a Seller is required to submit full EFP details by 9am AEST, and a Buyer is required to review and approve by 9.30am AEST.

How are EFPs registered?

EFPs can only be registered with ASX 24 by Trading Participants through ASX TradeAccept. In addition to the steps below, a trading participant may have specific requirements before it will accept an EFP for registration, so it is recommended that you contact your trading participant for more information.

There are seven key steps to the registration of an EFP:

- 1. Agree** Buyer and seller agree EFP transaction.
- 2. Execute** Each party enters into the physical transaction with settlement scheduled either immediately or on an agreed deferred basis and at or about the same time as a futures market contract opposite in effect is traded;²
- 3. Notify** Each party independently notifies their respective ASX 24 Participant of details of the EFP transaction at or about the same time as a physical transaction opposite in effect is traded.
- 4. Report** The Trading Participant to the counterparty selling the futures contracts is required to submit the details of the EFP trade to ASX Trade Accept within **30 minutes** of them being notified by their client. EFPs agreed for sellers between 4.30pm and 7.00am Australian Eastern Standard Time (AEST) must be submitted by 9am AEST.
- 5. Approve** The Trading Participant for the counterparty buying the EFP trade is then required to approve the EFP trade via ASX Trade Accept within **60 minutes** of details being submitted to ASX Trade Accept. EFPs agreed for buyers between 4.30pm and 7.00am AEST must be reviewed and approved by 9.30am AEST.
- 6. Accept** EFP trades are verified by ASX to ensure they meet specific conditions prior to the registration being accepted.
- 7. Register** Once ASX has approved the EFP, the futures position(s) are registered with the ASX Clear (Futures) clearing facility.

Can an EFP be cancelled?

EFPs can be cancelled under the following circumstances:

- **Trade Day (T):** Trading Participants can cancel EFPs on the day of registration where both parties to the transaction have approved the cancellation. ASX may refuse the cancellation request however it would be rare for this to occur.
- **Trade Day plus 1 (T+1):** EFPs can only be cancelled on T+1 where there has been an error in the details of an EFP and the trading participant submits a replacement EFP with the correct details.
- **Beyond T+1:** Cancellations beyond T+1 are not permitted except in exceptional circumstances and as determined by ASX.

² The most common EFP involves one type of physical instrument be offset against a certain type of futures contract however a Multiple Futures EFP or a Multiple Physical EFP or a combination EFP can also be registered so long as there is a reasonable correlation. See the ASX Website for more details.

What are the approved EFP Interest Rate Derivative Product combinations?

ASX Products	Exchanged for	Examples of acceptable evidence of the physical
ASX Interest Rate Derivatives	<ul style="list-style-type: none"> • Australian Dollar denominated: <ul style="list-style-type: none"> – Commonwealth Government securities – Semi-Government bonds – Corporate bonds – Bank accepted bills of exchange – Negotiable certificates of deposit – Interest rate swaps – Forward rate agreements – Bond options – Caps and floors – Swaptions – Forward currency swaps • Foreign currency denominated securities equivalent to the above list, in either New Zealand dollar, US dollar, Canadian dollar, British Pound or Euro, that are considered reasonably correlated are accepted. 	<ul style="list-style-type: none"> • Bond EFP – evidence from Austraclear (or equivalent settlement system such as RITS or Euroclear) demonstrating that the bond has physically settled between the parties to the EFP • Swap EFP – evidence from a trade source system (e.g. MarketWire) confirming the swap physical is based on an underlying legal agreement (such as an ISDA Master Agreement) between the two parties to the EFP

Where can I obtain more information about EFPs?

You can obtain more information about interest rate derivative EFPs by:

- contacting your trading participant;
- reading [rules 4800 to 4804 of the ASX 24 Operating Rules](#);
- reading rule 3.5 of the [ASIC Market Integrity Rules \(ASX 24 Market\)](#); and
- accessing information on the [ASX 24 EFP facility](#) available on the ASX Website.

Further enquiries:

For more information on Exchange for Physical (EFP) transactions in ASX interest rate derivative products, please contact:

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