

## ANNEXURE 1 COLLATERAL PROCEDURES

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# ANNEXURE 1 COLLATERAL PROCEDURES

## 1. INTRODUCTION

This Annexure describes the procedures to be followed by Participants when providing Collateral to ASX Clear to satisfy margin requirements, or when withdrawing Collateral, as described in Rule 14.6.

If a Participant fails to follow these Procedures, the Account will be required to be Cash Covered, i.e. a cash margin will be required by 10.30 am (Sydney time) on the following business day.

ASX Clear will endeavour to process an accurately completed Collateral lodgement request on the day it is received, provided that it is received by ASX Clear by 5.00 pm (Sydney time). The clearing system will process accepted Collateral lodgement requests received each day during end of day processing.

Introduced 11/03/04 Amended 10/12/04, 20/05/05, 02/02/09

## 2. ACCEPTABLE COLLATERAL

Under Rule 14.6.1, a Participant must provide to and maintain with ASX Clear Cover for its margin obligations in respect of each of its Accounts in the amount, manner and form determined from time to time by ASX Clear and specified in the Procedures or notified to the Participant. Cover may take the form of Cash or Collateral.

Introduced 11/03/04 Amended 02/02/09

### 2.1 Single Account/Cover Group Collateral

Collateral may relate to a single Account or to more than one Account (i.e., a Cover Group). If more than one Account is specified in the Registered Holder Collateral Cover Authorisation for Client Account form or Linking Information provided by a Participant in accordance with section 3 of this Annexure 1, ASX Clear will, for the purpose only of determining the value of Cover provided in relation to the specified Accounts, apportion the value of the Cover between the specified Accounts.

This apportionment is purely administrative and does not affect the right of ASX Clear to apply the Cover as authorised under Rule 14.6.4.

An account cannot belong to more than one Cover Group. Cover Groups cannot contain Cash Market Accounts or both House and Client Accounts in the same group.

Participants must notify House and Client Cover Groups to ASX Clear by email to [deriv.clearing@asx.com.au](mailto:deriv.clearing@asx.com.au) containing the following details:

- name of Cover Group; and
- Accounts constituting the Cover Group.

In addition, Registered Holder Collateral Cover Authorisation forms or Linking Information which relate to Client Accounts that are part of a Cover Group must specify all Accounts constituting the Cover Group.

Introduced 11/03/04 Amended 02/02/09, 07/06/13, 01/03/19

## **2.2 Acceptable Collateral Criteria**

ASX Clear has determined the following to be acceptable Collateral for the purposes of Rule 14.6.1.

### **2.2.1 Approved Financial Products**

For the purpose of these Procedures, Approved Financial Products has the same meaning as in the ASX Settlement Operating Rules.

Holdings of Approved Financial Products that meet the criteria set out below must be lodged electronically with ASX Clear as Collateral in an ASX Clear sub position.

#### **i) S&P/ASX 200 Index Stocks**

Approved Financial Products that are included in the S&P/ASX 200 Index are acceptable as Collateral, with the following exceptions:

- Partially paid stocks are not accepted as Collateral;
- Participant issued or Parent/associated entity issued stocks are not accepted as Collateral against a House Account or Cash Market Account;
- Participant issued stocks are not accepted as Collateral against a Client Account;
- Parent/associated entity issued stocks (“Associated Collateral”) are accepted as Collateral against a Client Account subject to limits based on the haircut value of Associated Collateral lodged for each Participant and the haircut value of total client equity Collateral lodged.

Applicable limits are determined by ASX Clear from time to time and advised separately to impacted Participants.

- ❖ In the event that a Participant breaches a limit, ASX Clear will require the excess to be removed, with additional Cover (lodged as cash) called to the value of the excess as a temporary measure until utilisation is reduced within the limit.
- ❖ The haircut value of Associated Collateral lodged is subtracted from the Participant’s STEL in the calculation of Additional Cover (AC) calls such that the threshold call level is reduced (refer Procedures 14.6.1 “Calculate Clearing Participant STEL AIMS Obligation”).

Any non CST additional Cover already lodged at the time of the AC call is deducted from the call amount.

## ii) Exchange Traded Funds

Exchange Traded Funds (ETFs) approved by ASX Clear at its absolute discretion are acceptable as Collateral. In considering whether an ETF is approved as collateral, ASX Clear may take into account factors including the ETF's maturity and liquidity, the level of issuer risk, and the level of demand from Participants.

The list of Collateral that meets the criteria at (i) and (ii) above at any given time is published on [asx.com.au](http://asx.com.au).

The list of acceptable Collateral is updated quarterly following the S&P/ASX 200 index rebalance, and more frequently as required at ASX Clear's discretion. A Market Notice is issued on each occasion that the list is updated. The Market Notice identifies stocks added to or removed from the list of acceptable Collateral, and applicable effective dates.

Each day, ASX Clear assigns a value for margin purposes to all Collateral held or provided. ASX Clear will value all Collateral stocks at the daily closing market price less a percentage based discount known as the "haircut". The haircut percentage is reviewed from time to time with changes advised to Participants in an ASX Clear Notice. The current haircut rates are included in the list of acceptable Collateral published on [asx.com.au](http://asx.com.au).

## iii) Specific Cover

Any stock may be lodged as "specific Cover" in respect of written Call Options over that stock, with the following exception:

- Participant issued stocks or Parent/associated entity issued stocks are not accepted as Collateral against a House Account.

If a Participant lodges as specific Cover the same number and issue of stocks that underlie each written Call Option, ASX Clear will not call margins in respect of those Options CCP Contracts.

Participants are responsible for ensuring the number of stocks lodged is equal to the number underlying the contract in accordance with the contract specifications, as amended from time to time, at all times. Any shortfall that is not addressed by the Participant will result in margin calls in respect of the whole position that is not fully covered.

If stocks are lodged as specific Cover against Call Options, those CHESS lodged stocks will not be treated as Cover for Options in other Classes.

Introduced 11/03/04 Amended 30/04/04, 02/02/09, 23/08/10, 07/06/13

### 2.2.2 Bank Guarantees

*Note: In general bank guarantees are not acceptable collateral under the Reserve Bank's Financial Stability Standards for Central Counterparties (FSS).*

## *House Accounts and Client Accounts*

ASX Clear may, in its absolute discretion, allow a Participant to lodge a bank guarantee from an approved bank in the form approved by ASX Clear as Collateral in respect of a House Account or Client Account.

### **Approved Banks**

ASX Clear accepts guarantees from Authorised Deposit-taking Institutions (banks only) with an S&P short term credit rating of A-1+ with the following exception:

- Participant issued or Parent/associated entity issued bank guarantees are not accepted as Collateral.

Participants wishing to lodge bank guarantees must first satisfy themselves that the issuer meets the acceptability criteria before requesting lodgement of the guarantee. If a bank guarantee ceases to satisfy the criteria, the relevant Clearing Participant(s) will be notified and provided sufficient time for replacement collateral to be lodged.

Each day, ASX Clear assigns a value for margin purposes to all Collateral held or provided. ASX Clear will value bank guarantees at face value.

### **Form of Guarantee**

There are three forms of acceptable bank guarantee:

- (a) The *Bank Guarantee – House Account* that allows only ASX Clear to demand payment from the bank. This guarantee may only be used for House Accounts.

The *Bank Guarantee – House Account* is included at Annexure 2.

- (b) The *Bank Guarantee – Standard for Client Account* that allows only ASX Clear to demand payment from the bank. This guarantee may only be used for Client Accounts.

The *Bank Guarantee – Standard for Client Account* is included at Annexure 2.

- (c) The *Bank Guarantee – Dual Beneficiary for Client Account* that allows either ASX Clear or the Participant to demand payment from the bank. This guarantee may only be used for Client Accounts.

The *Bank Guarantee – Dual Beneficiary for Client Account* is included at Annexure 2.

No amendments or alterations to the bank guarantees are acceptable.

Where a Participant lodges a *Bank Guarantee – House Account* the Participant must notify ASX Clear of those House Accounts (Derivatives) which the Guarantee is intended to cover for margining purposes by email to [deriv.clearing@asx.com.au](mailto:deriv.clearing@asx.com.au). Attribution in accordance with the Participant's notification and Procedure 14.6.4 is purely administrative and does not affect the right of ASX Clear to apply the proceeds of the Guarantee under Rule 14.6.4.

Amended 31/07/07, 02/02/09, 07/06/13, 28/04/14, 08/02/17

### 3. FINANCIAL PRODUCTS MOVEMENTS

#### 3.1 Prerequisites to lodgement of Approved Financial Products

##### Client Accounts

Client Accounts may qualify to participate in the paperless lodgement scheme where:-

- (a) the Account name in DCS matches the Registered Holder name in CHESSE, the ASX Clear Participant is the ASX Settlement Participant that controls the Registered Holding and a completed original *Addendum to Derivatives Client Agreement Form* has been lodged with ASX Clear prior to 28 February 2005; or
- (b) a completed *Registered Holder Collateral Cover Authorisation* form has been lodged for the Client Accounts with ASX Clear prior to 1 March 2019; or
- (c) a Participant has lodged with ASX Clear a document in a form approved by ASX Clear, that identifies a Holder Identification Number (HIN) on the CHESSE Subregister against that Client Account (“**Linking Information**”).

Client Accounts for which these requirements have not been completed must lodge other forms of Cover, i.e. cash or bank guarantees.

With effect from 1 November 2011, where a Participant lodges a copy of the *Registered Holder Collateral Cover Authorisation* form, it must retain the original of the form and be able to produce it for ASX Clear on request for a period of 7 years from the date on which the Participant ceases to be the relevant client’s Controlling Participant.

##### House Accounts

Prior to lodging Approved Financial Products on a House Account a completed *House Account HIN* form must be lodged with ASX Clear.

The *House Account HIN* form is included at Annexure 2.

House Accounts for which these requirements have not been completed must lodge other forms of Cover, i.e. cash or bank guarantees.

##### Cash Market Accounts

Prior to lodging Approved Financial Products on a Cash Market Account a completed *Cash Market Account HIN* form must be lodged with ASX Clear.

The *Cash Market Account HIN* form is included at Annexure 2.

Cash Market Accounts for which these requirements have not been completed must lodge cash as Cover.

Introduced 11/03/04 Amended 10/12/04, 20/05/05, 02/02/09, 01/11/11, 07/06/13, 08/02/17, 01/03/19

#### 3.2 Lodgement of Approved Financial Products

ASX Clear will only accept lodgements over financial products which are CHESSE sponsored and that meet the Collateral eligibility criteria.

**a. Lodgement of Approved Financial Products to Cover Derivative Margin Obligations**

Participants can arrange for an ASX Settlement participant to lodge Collateral electronically by sending a CHES *027- Options Cover Creation Request* message to CHES. CHES then forwards this message to ASX Clear as a *610 - Options Cover Notification* CHES message.

If ASX Clear rejects the lodgement, the CHES participant will receive from CHES an *030 - Reduced Options Cover* CHES message.

Once it has been processed by ASX Clear, the Participant will be sent confirmation via DCS.

**b. Lodgement of Approved Financial Products to Cover Cash Market Margin Obligations**

Participants can arrange for an ASX Settlement Participant to lodge Collateral electronically by sending an *871 – Margin Cover Creation request* CHES message.

Once the request has been processed, the Participant will receive an *876 – Accepted Margin Cover Creation* CHES message.

If the request is rejected, the Participant will receive an *878 – Reduced Margin Cover* CHES message.

Introduced 11/03/04 Amended 20/05/05, 02/02/09, 07/06/13

**3.3 Lodgement of Approved Financial Products as Specific Cover**

Specific Cover lodgements may be established at the Financial Product level within an Account or at the Account level as follows:

**a. Financial Product Level**

A Participant may classify any Financial Product level within an Account as specific Cover.

ASX Clear will only accept lodgements of Financial Products which are CHES sponsored. Participants can arrange for an ASX Settlement participant to lodge Collateral electronically by sending a CHES *027- Options Cover Creation Request* message to CHES specifying specific Cover lodgement. CHES then forwards this message to ASX Clear as a *610 - Options Cover Notification* CHES message.

If ASX Clear rejects the lodgement, the ASX Settlement Participant will receive from CHES an *030 - Reduced Options Cover* CHES message.

Once it has been processed by ASX Clear, the Participant will be sent confirmation via DCS.

**b. Account Level**

A Participant may classify any Account as specific Cover.

When an Account has been classified as specific Cover, any future Financial Product lodgements in the Account will be automatically classified as specific Cover and will only be applied against written Call Option positions with the same underlying lodged in the Account (see 2.2.1(ii)).

However, if a Participant requires existing Financial Product lodgements in a specific Cover Account to be classified as specific Cover, the Participant must submit a request to ASX Clear via email to [deriv.clearing@asx.com.au](mailto:deriv.clearing@asx.com.au).

Introduced 02/02/09 Amended 07/06/13

### 3.4 **Withdrawal of Approved Financial Products or Cash Lodged as Cover Against Margin Obligations**

In the event that a Participant wishes to exchange Collateral or replace one form of Cover (Collateral or Cash Cover) with another form of Cover in respect of margin obligations, the replacement Cover must be received by ASX Clear before ASX Clear will release the Cover to be exchanged or replaced (as the case may be). Three alternative approaches are outlined below.

#### a. **'Exchanging' collateral**

Collateral may be replaced by other Collateral at any time between 8.00 am and 5.00 pm on any Business Day. Where a Participant wishes to replace Collateral with other Collateral, ASX Clear will release the Collateral that is to be replaced upon receipt of the replacement Collateral.

#### b. **Replacement of Collateral with Cash Cover**

Where a Participant wishes to replace Collateral with Cash Cover, ASX Clear will release the Collateral that is to be replaced upon receipt of the replacement Cash Cover. There is no mechanism available to effect the replacement of Collateral with Cash Cover intra-business day. Participants are required to transmit withdrawal requests by 5.00 pm on the business day before release of the Collateral is required. ASX Clear will remove the Collateral from the account(s) and release it back to the Participant after the scheduled (CHES or Austraclear) settlement *has completed* on the required day of release.

#### c. **Replacement of Cash Cover with Collateral**

Where a Participant wishes to replace Cash Cover with Collateral, ASX Clear will release the Cash Cover that is to be replaced following receipt of the replacement Collateral. Participants will be required to lodge the replacement Collateral with ASX Clear by 5.00 pm on the business day before the Cash Cover is required to be released. ASX Clear will undertake the resulting payment to the Clearing Participant on the following day in the normal daily scheduled CHES/ Austraclear settlement.

**It is important that Participants ensure these timings are taken into account in planning all movements of Cover and that the monitoring tools available in collateral management are utilised.**



In all cases, Participants are required to contact Clearing and Settlements (phone 1800 814 051, email [deriv.clearing@asx.com.au](mailto:deriv.clearing@asx.com.au)) to request the replacement of Cover.

Amended 16/07/07, 02/02/09, 07/06/13

### 3.5 **Withdrawal of Approved Financial Products Not Covering Margin Obligations**

ASX Clear will attempt to process Collateral withdrawals by the following times:

- for withdrawal requests received by ASX Clear by 9.00 am (Sydney time) - by 10.00 am on that day.
- for withdrawal requests received by ASX Clear by 5.00 pm (Sydney time) - on the same day.
- for withdrawal requests received by ASX Clear after 5.00 pm (Sydney time) - by 10.00 am the next Business Day.

The time of receipt of a withdrawal request is the time when the CHES message is received by ASX Clear.

Amended 02/02/09

### 3.6 **Withdrawal of CHES Holdings**

#### **Total Withdrawal**

The Participant must arrange for the relevant ASX Settlement participant to transmit a CHES 029 - *Options Cover Removal Request* message which is received by ASX Clear from CHES as a 612 - *Notification of Removal of Options Cover* CHES message.

For the withdrawal of Collateral covering a margin obligation in respect of a Cash Market Account, the Participant must send an 877 - *Margin Cover Removal Request* CHES message.

#### **Partial withdrawals**

For partial withdrawals, the 029/612 CHES message must identify the number of financial products to be withdrawn.

For partial withdrawals of Collateral covering a margin obligation in respect of a Cash Market Account, the Participant must send an 877 CHES message identifying the number of financial products to be withdrawn.

#### **Rejection of Withdrawal**

Incomplete or incorrect Options Cover Removal Requests will be rejected. ASX Clear will send a CHES 605 - *Options Cover Removal Rejection* message to CHES and CHES will send an 078 - *Rejected Options Cover Removal* CHES message to the CHES participant.

Incomplete or incorrect Cash Market Margin Cover Removal Requests will be rejected. ASX Clear will send a 956 - *Rejected Margin Cover Removal Request* CHES message.

#### **Third Party Withdrawals**

For withdrawals where the ASX Settlement Participant is different to the ASX Clear Participant, the ASX Clear Participant will receive a CHES 168 - *CP Collateral Removal*

*Authorisation Request message* in response to the CHES 029 message. The ASX Clear Participant must then respond with a CHES 103 – *CP Collateral Removal Authorisation message*, which will trigger the CHES 612 message to ASX Clear, or a CHES 109 – *CP Collateral Removal Rejection message*. The ASX Clear Participant must respond to these messages within 2 business days of receipt.

Third Party withdrawals are not currently permitted on Financial Products lodged to satisfy margin obligations on a Participant's Cash Market Account.

Introduced 11/03/04 Amended 10/12/04, 02/02/09, 07/06/13

### 3.7 Transfers of Collateral Lodgements

#### Participant to Participant Transfers

ASX Clear will only transfer Collateral from one Participant (transferring) to another Participant (receiving) after the receiving Participant has sent their 245 CHES message - *Change Controlling Participant Request* and the transferring Participant has sent their 251 CHES message - *Change Controlling Participant Authorisation* and both messages have been matched in CHES's overnight processing.

Both the transferring and receiving Participants must send a facsimile of *Transfer of Collateral between Participants* form with the appropriate sections completed. Once the HINs have been transferred on CHES, ASX Clear will transfer the Collateral to the receiving Participant provided the *Transfer of Collateral between Participants* form is completed appropriately. Collateral lodgements will not be transferred to the receiving Participant until the above information has been received.

Once a transfer of Collateral has been processed by ASX Clear, the Participant will be sent confirmation of this via DCS.

#### Account to Account Transfers (Within a Participant)

If a Participant wishes to transfer Collateral lodged in respect of an Account to another Account of that Participant, the Participant must send a facsimile or letter on their standard letterhead containing the following information:

- A list of the lodgements to be transferred and their existing Account numbers;
- The names of the Account(s) from which the lodgement is to be transferred;
- The numbers and names of the Account(s) to which the lodgement is to be transferred.

The new account names must be identical, otherwise standard withdrawals and lodgements must be processed.

Amended 16/07/07, 02/02/09, 01/03/19

### 3.8 Lodgement in Favour of Futures Only Participant

The ASX Settlement participant who has control of the HIN must send the lodgement and withdrawal CHES messages that show the Futures Participant No. and Account No. in the appropriate fields.

The Futures Participant must send the lodgement/withdrawal forms with the corresponding Participant and Account information. Lodgement forms must be fully completed showing the Account no., PID, HIN, client name and registered holder name.

Clients' securities are not acceptable as lodgement in favour of an Omnibus Account.

Amended 16/07/07, 02/02/09

### **3.9 Reports on Lodgements of Approved Financial Products as Collateral**

For ASX Settlement Participants that are not ASX Clear Participants, printed reports are available from ASX Clear on request showing details of their Collateral lodgements. These include reports showing all Collateral lodged, or Collateral lodged in respect of the Accounts of specified clients (with each client on a separate page).

ASX Clear may charge for this service depending on the frequency and size of the reports.

Amended 16/07/07, 02/02/09

## **4. BANK GUARANTEES**

### **4.1 Lodgement of Bank Guarantees**

To lodge a Bank Guarantee with ASX Clear the completed *Bank Guarantee – House Account* or *Guarantee – Standard for Client Account* or *Bank Guarantee – Dual Beneficiary for Client Account* must be sent to ASX Clear.

An incomplete or incorrect Bank Guarantee will be returned to the Participant.

A bank guarantee may not have any annexures. If there is insufficient space on the bank guarantee for account names, additional bank guarantee forms must be completed.

A bank guarantee can not be lodged with an expiry date being a non Business Day.

Once ASX Clear has processed the lodgement of a bank guarantee, the Participant will be sent confirmation via reports available through DCS.

Amended 30/04/04, 08/02/08, 02/02/09, 07/06/13, 08/02/17

### **4.2 Withdrawal of Bank Guarantees**

To withdraw a bank guarantee lodged as Collateral, an authorised signatory of the Participant must fax ASX Clear on 1300 300 577 or e-mail ASX Clear at [deriv.clearing@asx.com.au](mailto:deriv.clearing@asx.com.au) requesting removal.

A bank guarantee can only be withdrawn in full. No alterations or Account allocations can be made once a bank guarantee has been lodged at ASX Clear. If any alterations or allocations are required, a new bank guarantee will be required.

ASX Clear will retain a withdrawn bank guarantee until any margin obligation for the associated account(s) has been met by the Clearing Participant the following business day unless alternate Cover has been lodged.

A bank guarantee must be withdrawn at least one business day prior to specified expiry date.

Amended 30/04/04, 08/02/08, 02/02/09

#### **4.3 Transfer of Bank Guarantee Not Allowed**

A bank guarantee cannot be transferred from one Participant to be treated as Collateral for another Participant. It must be withdrawn and a new bank guarantee lodged by the new Participant.

Introduced 11/03/04 Amended 30/04/04, 02/02/09

#### **5. AUSTRACLEAR SECURITIES – [DELETED]**

Introduced 11/03/04 Amended 30/04/04, 29/02/08 Deleted 02/02/09

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