

23rd October 2013

Re: Response to “Consultation on Capital Requirements” paper

Minimum Capital Requirements for DCP’s:

Q1: Do you think that the current minimum core capital requirement of \$5 million for DCPs is appropriate?

OM – Yes, we believe that the current \$5 million requirement is appropriate for a number of reasons:

- The recent introduction of daily CMM serves as an effective way to collateralise obligations upfront and provides a great mechanism for ASXCL to manage the probability of participant default. The daily CMM requirements could be changed as ASXCL deems appropriate and we believe this is the best mechanism to manage liquidity risk on a near real-time basis.
- The recent FSS paper also goes a long way in assisting to reduce the risk of participant default
- Further increases in capital requirements from DCPs will result in further outsourcing of clearing and settlement functions, increasing concentration risk at GCP’s like Pershing, who are still grappling to effectively service their larger full service broking clients.

Q2: If you do not consider the \$5 million requirement to be appropriate...

OM – We do consider it to be appropriate as covered in Q1 above.

Q3: Are there any other factors that ASXCL should take into consideration?

OM – Not that we believe at this stage.

Tiered Minimum Core Capital Requirements for GCP’s:

Q1: Do you think that the tiered minimum core capital requirement of for GCPs is appropriate?

OM – Yes, a tiered model would seem appropriate as Core Capital Requirements should increase as the number of TPs increases

Q2: If YES to Q1, is ASX’s tiering appropriate?

OM – No we don’t believe it is. The proposed tiered minimum core capital requirement merely replicates the current requirement of \$5 million for a single DCP and is a multiple of that requirement as TP’s are added. Considering that a GCP still applies Core Capital Requirements to its TPs and then uses this as part of its Core Capital we believe the number of TP’s could be doubled in the table provided.

Q3: Do you think there should be a time limit for transitional capital arrangements?

OM – Yes, a time limit assist the industry in better planning and preparation considering the changes currently underway but time limits should not be too drawn out.

Q3: Are there any other factors that ASXCL should take into consideration?

OM – Not that we believe at this stage.