



ASX Clear: Removal of Registered Holder Collateral Cover Authorisation Form

**Response to consultation on amendments to
the ASX Settlement Operating Rules and ASX
Clear Operating Rules and Procedures**

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Contents

Consultation Process	3
Consultation feedback and ASX responses	3
Proposed amendments to remove the RHCCA form	3
Proposed amendments to facilitate third party security interest over collateral and excess cash.....	4
Next Steps	5

Consultation Process

In April 2018, ASX Clear Pty Limited (**ASX**) released a [Consultation Paper](#) seeking market feedback on proposed amendments to the ASX Clear Operating Rules and ASX Settlement Operating Rules to remove the Registered Holder Collateral Cover Authorisation form for client accounts (**RHCCA form**). ASX also proposed minor amendments to the ASX Clear Operating Rules to enable a third party to take a security interest over collateral and excess cash where the parties to the security interest agree between themselves in writing that ASX's security interest has priority.

ASX received six (6) responses in response to the Consultation Paper. All respondents, with one exception, supported the proposed amendments. Bilateral feedback received by ASX from other Clearing and Settlement Participants also indicated broad support for these initiatives. ASX thanks all those who shared their views during the consultation process.

ASX proposes to make the rule and procedure amendments set out in the Consultation Paper together with the amendments outlined below. A copy of the final consolidated rule and procedure amendments is available [here](#).

Consultation feedback and ASX responses

Proposed amendments to remove the RHCCA form

Removal of RHCCA form

One respondent recommended that ASX maintain the existing RHCCA form on the basis that the current arrangements worked well to onboard clients and they had no intention of transferring clients holding positions in options market contracts en masse to another Clearing Participant.

Five (5) respondents supported the removal of the RHCCA form.

ASX intends to proceed with the removal of the RHCCA form. Market feedback indicates that the benefits of removing the RHCCA form include:

- a more operationally efficient onboarding process;
- a reduction of administrative burden when processing a mass transfer of clients from one Clearing Participant to another; and
- the possibility to improve the opportunity for a client's position to be ported upon default of their Clearing Participant in circumstances where ASX Clear supports a porting window.

Paper-based authorisation

One respondent indicated that if the RHCCA form was removed from the ASX Clearing Operating Rules they intended to maintain a paper-based authorisation process.

Despite the removal of the RHCCA form from the ASX Clear Operating Rules, Participants may choose to adopt a similar paper-based authorisation process if that is their preferred approach. If a Participant seeks to adopt a similar paper-based authorisation process they will need to ensure that, at a minimum, the form they develop:

- is Clearing Participant agnostic. This means that the form must not be limited exclusively to the client's current Clearing Participant but should allow for the transfer of the client's positions to another Clearing Participant supported by the same Collateral;
- provides that the Registered Holder:
 - authorises its Controlling Participant to reserve the Collateral in the ASX Clear subposition so that the Financial Products come under the control of ASX Clear and are subject to the security interest granted in favour of ASX Clear to secure the performance by the relevant Clearing Participant of its obligations to ASX Clear under the ASX Clear Operating Rules;
 - authorises any subsequent dealing (including, without limitation, any transfer) of the reserved Financial Products in accordance with the ASX Settlement Operating Rules and ASX Clear Operating Rules; and

- acknowledges that the Financial Products will remain subject to that security interest for so long as those Financial Products remain reserved in the ASX Clear Subposition; and
- reflects the new arrangements to enable third parties to take a security interest where the parties to that security interest agree between themselves in writing that ASX Clear's security interest in respect of the collateral has priority or ASX has otherwise agreed.

Technology enhancements

One respondent asked whether the removal of the RHCCA form and the 'Linking Information Request' would require a technology upgrade to CHES or DCS.

There will be no mandatory CHES or DCS upgrade required to support the framework that will replace the RHCCA form. However, Participants should consider whether their own process and operational changes require any changes to their information technology (IT) systems.

Mandatory terms in client clearing agreement

One respondent recommended that ASX consider mandating specific terms for inclusion in client clearing agreements to satisfy the new requirements. The respondent suggested that this would maintain consistency across the market and ensure that ASX was fully protected.

At the outset ASX considered mandating specific terms in the Derivatives Client Agreement (in Schedule 5 of the ASX Clear Operating Rules) to replace the RHCCA form, however, ASX concluded that doing so would not provide a solution for third party collateral and would not cater for the many different business models adopted by Participants. Similarly, ASX Settlement sought a solution to the removal of the RHCCA form that would not require all Sponsoring Participants to amend the terms of their Participant Sponsorship Agreement given how relatively few Sponsoring Participants had Sponsored Holders lodging Collateral Cover for Exchange Traded Options accounts. Accordingly, ASX does not intend to mandate specific terms to be included in the Derivatives Client Agreement or the Participant Sponsorship Agreement. However, in order to assist Sponsoring Participants to meet their obligations under the new rules framework ASX has amended the pro-forma Participant Sponsorship Agreement (in Appendix 3 of the ASX Settlement Operating Rules) to include terms that would address the new obligations if Sponsoring Participants chose to adopt them. These pro forma clauses may be adapted for use in other documentation.

Timing of implementation of removal of RHCCA form

Three respondents advised that the proposed framework to replace the RHCCA form would require changes to their existing processes, documentation and supporting IT systems and requested sufficient time to effect these changes. The timeframe requested from respondents varied from three (3) months from the time the change was officially announced to 12 months.

In light of the feedback received, ASX appreciates that the removal of the RHCCA form is likely to impact the processes, documentation and supporting IT systems of a significant number of Clearing and Settlement Participants. Accordingly, ASX proposes to allow an implementation period of six (6) months for all required changes. During the implementation period ASX will continue to communicate regularly with Clearing and Settlement Participants to assess operational readiness. Notwithstanding these communications, ASX expects all Participants to be operationally ready to support this change on 1 March 2019.

Proposed amendments to facilitate third party security interest over collateral and excess cash

Status of existing third party security interests approved by ASX

Two respondents requested that ASX clarify the status of existing third party security interests that have been approved by ASX (including Deeds of Priority that relate to margin lending arrangements).

The proposed amendments to facilitate third party security interests were intended to improve operational efficiency going forward. Accordingly, existing third party security interests that have been approved by ASX (including Deeds of Priority that relate to margin lending arrangements) will remain on foot. ASX has made further amendments to Rule 14.6.7 of the ASX Clear Operating Rules and the Procedures to reflect this. However, any Participant that seeks to rely

on a historical Deed of Priority (or other ASX approved third party security arrangement) must ensure that they have and retain a copy of those arrangements and are able to produce them for ASX on request at any time.

ASX stepping out of 'approval' process of third party security interests

Two respondents recognised that there may be a contested issue between Participants as a result of ASX's proposal to step out of the 'approval' process for third party security interests. One of the two respondents was concerned that under ASX's proposal Sponsoring Participants will not agree to allow a Clearing Participant to take a second priority security interest over collateral. The other respondent indicated that they thought that a contested situation was likely to be rare and should be able to be managed between Participants.

ASX intends to proceed with this amendment. To date ASX has 'approved' several Master Priority Deeds that grant a Clearing Participant a second ranking interest in collateral, however, ASX has only done so where the Sponsoring Participant has been prepared to agree to those terms. The amended process should have no impact on the appetite of Sponsoring Participants to enter into similar arrangements. ASX Clear Guidance Note 11 deals with the settlement risks where financial products are controlled by third parties (that are not the Clearing Participant). Addressing settlement risks of this nature would require a change not only to Operating Rules but to operational processes and systems that are outside the scope of this consultation. As part of CHES Replacement, ASX has recently considered releasing exchange traded options collateral into a Participant's settlement entrepot account as an offset to the exercised exchange traded options position. As working group participants and the industry more generally placed a low priority on this requirement it will not be progressed.

Next Steps

Subject to regulatory clearance, ASX intends to implement the proposed amendments to the ASX Settlement Operating Rules and ASX Clear Operating Rules and Procedures outlined in this Response to Consultation. The rule and procedure amendments relating to the removal of the RHCCA form and third party security interests will be effective on **1 March 2019**.