



# **ASX 24 Exchange Traded Derivatives Client Clearing Service**

## **Frequently Asked Questions – Clearing Participants**



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## Document Purpose

The purpose of this document is to provide guidance on commonly asked questions that clients of Clearing Participants (“CP”) may have about the ASX 24 Exchange Traded Derivatives Client Clearing Service (“ASX ETD Client Clearing Service”). This document is focused on practical and operational issues with regard to the service.

Further detail is available through procedural documentation and the ASX Clear (Futures) Operating Rules available on the ASX website.

The ASX Clear (Futures) Operating Rules that support ASX’s new client clearing framework commenced on the 11<sup>th</sup> February 2014. ASX will determine, and notify CPs, the dates on which the new client clearing provisions in Part 10 of the Operating Rules ‘Client Protection Model Provisions’) will start to apply for different classes Market Contract. The start date for ASX 24 Exchange Traded Derivatives will coincide with the commercial launch of the client clearing service for the ASX ETD Client Clearing Service (expected beginning of Q3 2014).

This document has been provided to you for guidance only and is intended as a broad overview. This document does not, and does not purport to, contain a detailed description of its subject matter. This document should be read in conjunction with the ASX Clear (Futures) Operating Rules. It does not replace or vary those Operating Rules. This document does not constitute legal or financial advice.

Some of the information in this document is relevant for ASX OTC Client Clearing Services. For further information regarding ASX OTC Client Clearing Service please contact

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# Client and Account Set-up

## What is the ASX ETD Client Clearing service?

The ASX ETD Client Clearing Service will provide a client account structure that will enable a CP to offer their Clients an account that provides separate identification and protection of individual Client positions and associated initial margin value, in addition to the current net omnibus client account.

## What clients will the ASX ETD Client Clearing service be available for?

The ASX ETD Client Clearing Service is available to any person or entity on behalf of whom a CP acts in respect to cleared contracts under the ASX Clear (Futures) Operating Rules

## What client accounts will be available?

ASX will introduce additional Client Account Options for ASX 24 Exchange Traded Derivatives:

**1. Omnibus client account [Existing Structure]** – records open positions held by a CP on behalf of one or more Clients. The clearing house calculates initial margin on the net position in that account. In the case of a CP default, Clients should expect to be closed out.

**2. Individual client account ‘without excess’** – records open positions held by a CP on behalf of one Client only. Initial margin is calculated on the basis of the Client’s positions exclusively.

This allows the clearing house to port the Client’s positions and associated initial margin in the event of the CP’s default. If the Client’s positions are not ported, the clearing house will close out the positions and return the associated initial margin to the Client directly, less any losses, costs and expenses attributable to closing out the positions.

Collateral is not segregated at the individual client account level and therefore collateral held by the clearing house in excess of the initial margin requirement with respect to the Client’s positions cannot be ported with the positions and associated initial margin.

## What other client account options might ASX make available in the future?

ASX is considering two additional client account options and intends to consult stakeholders in 2014 on the design and implementation. These options include:

**Individual client account ‘with excess’** – as for Individual Client account ‘without excess’, except that collateral is segregated at the individual client account level and therefore excess collateral held by the clearing house may be ported with the Client’s positions and associated initial margin. Unlike ‘without excess’, this option requires CPs to report to the clearing house the value of excess collateral posted to the clearing house that is referable to each of its Individual client accounts; and

**‘Fully segregated’ individual client account** – one possible ‘fully segregated’ approach may be where a Client’s positions and collateral are segregated from those of other Clients, and the clearing house records the cash and specific non-cash collateral (i.e. the particular or equivalent securities), rather than a single initial margin value (as under Individual Client Account ‘without excess’ and ‘with excess’ options), in respect of the Client’s account. The

positions and the actual collateral held by the clearing house in respect of the Client's account may be ported in the case of a CP default.

### **How will collateral be protected in each account type?**

Each CP posts collateral (cash or eligible non-cash collateral) to ASX to satisfy the initial margin requirement calculated by ASX with respect to the participant's Client Accounts. All collateral posted by a CP with respect to Client Accounts is comingled (mixed) by ASX in a single account. Clients have no legal right or interest in collateral posted to ASX.

However, as collateral posted by a CP for initial margin with respect to its Client Accounts is in general funded by the CP's Clients, ASX treats the value of initial margin calculated with respect to each Client Account as belonging to the relevant Clients (in the case of an Omnibus Account) or Client (in the case of an Individual Client Account).

This value may be less than the value of assets actually provided by the Clients or Client to the CP. It is often the case that the CP will retain this difference and will not post it to ASX. However, where a CP posts collateral to ASX in excess of the amount of its initial margin obligation in respect of its Client Accounts ("excess collateral"), the excess collateral is exposed to the risk of losses that may arise in any of its Client Accounts, in the event of the CP's default.

For a summary of the key differences between the account types if a CP defaults refer to the Client Fact Sheet at: [www.asx.com.au/documents/about/ASX\\_client\\_clearing\\_client\\_fact\\_sheet.PDF](http://www.asx.com.au/documents/about/ASX_client_clearing_client_fact_sheet.PDF)

### **What are the porting options in a default scenario for each account type?**

In the event of a CP's default, ASX will have the power to transfer (or "port") open positions in a Client Account, with cash collateral to the value of the associated initial margin requirement, as satisfied by the CP at the last end-of-day calculation, to an Alternate CP nominated by the Client (in the case of an Individual Client Account). This is dependent on the Alternate CP agreeing to the transfer within a defined period of time from ASX's declaration of default (ASX 24 derivatives: up to 24 hours; OTC derivatives: up to 48 hours).

Portability of positions and initial margin value in an Omnibus Client Account could only be achieved if **all** clients nominated the same Alternate CP and the Alternate CP agreed within the defined period of time. Practically this is deemed highly unlikely and should be taken into consideration by clients when considering their porting options.

The likelihood of the "portability" of open positions and cash collateral for the associated initial margin is affected by the Client Account Option chosen by the Client.

For a summary of the key differences between the account types in relation to portability refer to the Client Fact Sheet at: [www.asx.com.au/documents/about/ASX\\_client\\_clearing\\_client\\_fact\\_sheet.PDF](http://www.asx.com.au/documents/about/ASX_client_clearing_client_fact_sheet.PDF)

### **Please also see [Default Management](#).**

### **In a multi-level client structure, how can a CP provide an end user client with the benefits of individual segregation?**

An end user client that seeks the benefits of individual segregation may either: (i) contract directly with a CP (and become the 'Client') or (ii) be nominated by an entity (e.g. broker) that is itself a 'Client' of a CP (the 'Nominated Person option'). The Nominated Person option is only available for Individual Client Accounts.

Under the Nominated Person option, a Client may provide to ASX the contact and bank account details of its end user client (Nominated Person) in respect of an Individual Client Account opened by the Client for the Nominated Person. Where a Nominated Person has been designated in respect of an Individual Client Account, and the Client's CP defaults, then:

- (a) ASX will, if necessary, contact the Nominated Person instead of the Client for instructions relating to porting the positions in that Individual Client Account to an Alternate CP; and
- (b) if the positions in the Individual Client Account and the associated initial margin value cannot be ported, the Client agrees that ASX will remit any residual initial margin directly to the Nominated Person's bank account.

The Nominated Person does not have any other rights or entitlements under the ASX Clear (Futures) Operating Rules. In particular, the Nominated Person does not have any further protections in the event of the default of the Client or any other intermediating entity. The Nominated Person is only protected from the default of the CP to the extent outlined above.

### **How is a Nominated Person designated in respect of an Individual Client Account?**

The Client designates a Nominated Person in respect of its Individual Client Account by providing to ASX the contact, bank account and any other prescribed details of the Nominated Person. The Client may also amend these details by notifying ASX. If the Client makes such an amendment, ASX may notify the Nominated Person of the amendment by using the contact details recorded prior to the amendment.

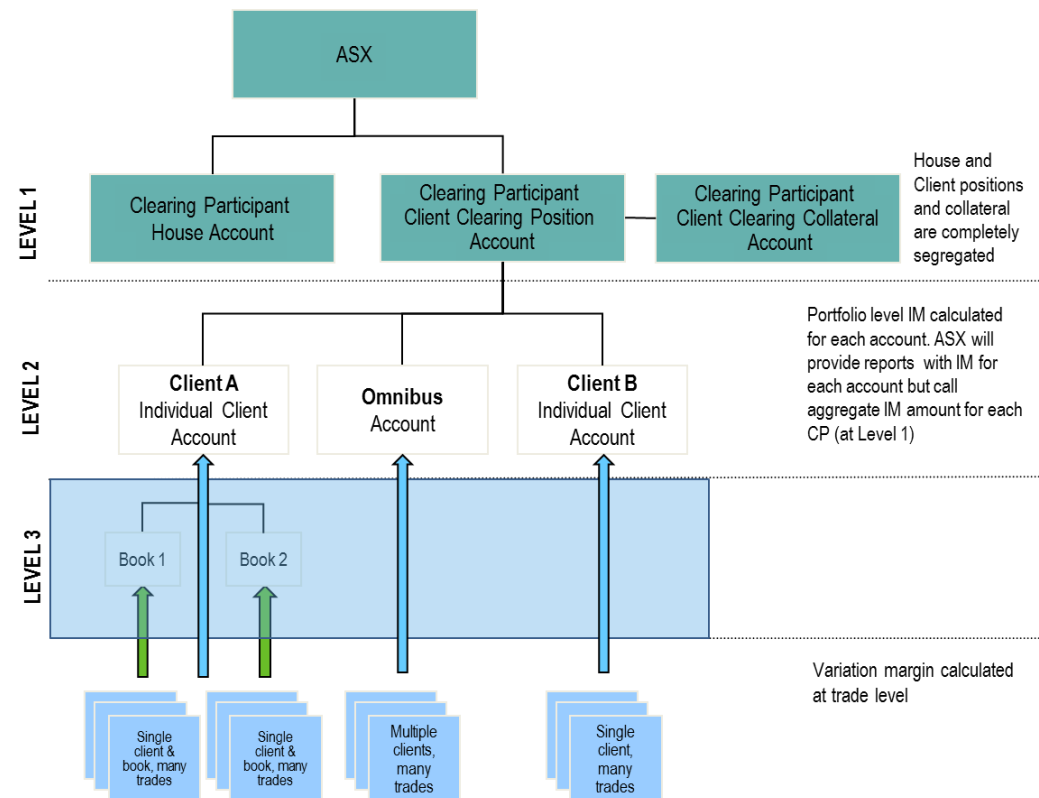
The designation of the Nominated Person and any changes to the details of such Nominated Person are only effective if made prior to the default of the Client's CP.

The Nominated Person cannot provide their details to ASX directly.

### **How many accounts can a client have?**

Each CP can have multiple Client Omnibus accounts and Individual Client accounts. The diagram below shows an example of the accounts that a CP could have under its Client account. Please refer to [Risk Management](#) and [Glossary](#) for further detail of the margin calculations.

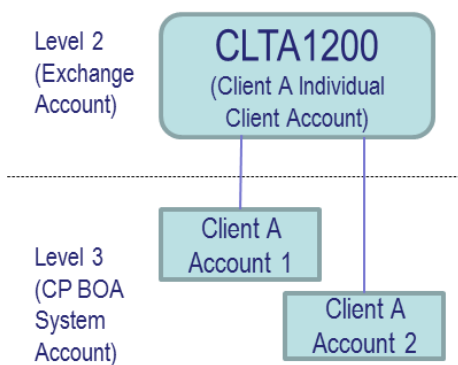




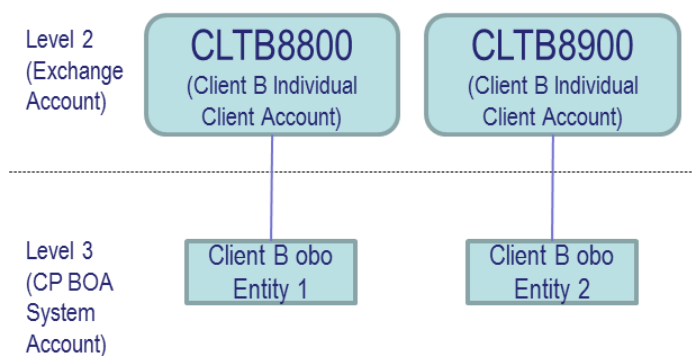
Clients should consider their corporate structure and the level at which they are seeking enhanced protection of their positions and collateral by ASX in deciding how many accounts they should open at ASX.

Clients with multiple desks or books within the one legal entity may choose protection of the full Client entity at ASX within one Individual Client Account. The Client may still operate multiple desk or book accounts with their CP, but clear these accounts against one Individual Client Account at ASX.

The below diagram represents 2 accounts of Client A within the CPs Back Office Accounting system (BOA), clearing to one Individual Client Account at ASX



Clients, who have multiple sub-entities, or entities on whose behalf they operate may prefer to open separate Individual Client Accounts per entity. Again, the Client may still operate multiple desk or book accounts with their CP, against each entity. The multiple Individual Client Accounts will ensure the activity within each sub-entity is segregated from activity of another sub-entity as initial margin will be calculated separately for each individual client account. This is represented in the below diagram.



### Can a client use the same account for multiple CPs?

No there is a separate account set up required for each CP that clears trades on behalf of a client.

### What impact will the introduction of ASX's Client Clearing Service have on existing client documentation for ASX 24 Exchange Traded Derivatives?

ASX's approach is to minimise the requirement for any changes to documentation between CPs and their Clients, resulting from the introduction of ASX ETD Client Clearing Service. ASX does not, and does not propose to, prescribe the form of documentation between CPs and their Clients. ASX's Operating Rules do prescribe certain minimum terms that must be included in a written agreement between a CP and its Client in relation to ASX 24 Exchange Traded Derivatives clearing. These minimum terms will also apply to client agreements for OTC Interest Rate Derivatives clearing. Two existing minimum terms will not apply under the Client Protection Model, as they are specific to the principal model of client clearing and inconsistent with the Client Protection Model:

- a Client obtains no right or benefit upon registration of a contract with ASX; and
- the Client has no rights against anyone other than its CP.

It should not be necessary for CPs to revise their agreements with existing Clients as a result of this change. That is because under the Client Protection Model, the Client, its CP and ASX become parties to cleared contracts in accordance with Part 10 of the Futures Rules. One of the terms of this agreement is that it takes precedence over any other agreement between a CP and its Client which is inconsistent with it. Stated another way, the rights that accrue to a Client under the Client Protection Model are conferred by ASX's Operating Rules rather than any bilateral agreement between the CP and Client, and accordingly the implementation of the Client Protection Model is not dependent on amendments to existing bilateral documentation. It should be noted that a Nominated Person is not a party to the cleared contract under the Client Protection Model, however, in the event of a CP's default the Nominated Person may provide instructions to ASX in relation to porting and will receive the residual initial margin value where the positions in the Individual Client Account in respect of which it has been nominated are not ported

All CPs must provide their Clients with, or direct them to, the Client Fact Sheet in accordance with the Operating Rules.. Refer to the Client Fact Sheet at:

[www.asx.com.au/documents/about/ASX\\_client\\_clearing\\_client\\_fact\\_sheet.PDF](http://www.asx.com.au/documents/about/ASX_client_clearing_client_fact_sheet.PDF).

## **What information is required to be provided to the ASX for ASX 24 Exchange Traded Derivatives Client Clearing?**

### **Client Omnibus account**

There is no change to the existing information required to be provided by CPs for end clients operating within the Client Omnibus account

CPs report the following information to ASX within their Daily Beneficial Ownership Reporting (DBOR) as outlined in ASX 24 Operating Rules Procedures 3500.

- Client Name of the beneficial owner of the position
- Client Address of the beneficial owner of the position

### **Individual Client account**

For clients operating within an Individual Client Account, CPs will continue to report the following information to the ASX within their Daily Beneficial Ownership Reporting (DBOR) as outlined in ASX 24 Operating Rules Procedures 3500

- Client Name of the beneficial owner of the position
- Client Address of the beneficial owner of the position

In addition to existing DBOR obligations, CPs will also need to provide the following information to the ASX prior to opening the account

- Client Name, Identifier (Legal Entity Identifier (LEI) or other recognised identifier)
- Client Address
- Position Netting selection (automatic/manual)
- Eligible for Cross Margining (with ASX OTC IRS products)

A Client and a Nominated Person (if applicable) will also need to provide the following information to the ASX.

- Client/Nominated Person Default Management Contact Details
- Client/Nominated Person Operations contacts
- Client/Nominated Person Legal contacts
- Client/Nominated Person nominated Alternate CPs and any order of preference and confirmation of documentation in place with Alternate CP
- Client/Nominated Person Standard Settlement Instructions (per currency)

ASX intends to provide an online Static Data Portal to facilitate information required by CPs and Clients for on boarding client with ASX. There will be an ongoing obligation for CPs and Clients to provide and maintain current information to ASX.

On the opening of the Individual Client Account, ASX will allocate a unique exchange account code for the CP to use to allocate trades on behalf of the client within the ASX clearing and allocation system.

The Individual Client account will be used to allocate trades to, and record the Open Positions which that CP holds on behalf of the Client for whom the account was opened.

## Do I need to offer my Clients both Account Options?

ASX will support two Client Account Options for ASX 24 Exchange Traded Derivatives

1. **Omnibus Client Account:** records open positions held by a CP on behalf of one or more Clients
2. **Individual Client Account:** records open positions held by a CP on behalf of one Client only. The Client may designate a Nominated Person with respect to an Individual Client Account.

CPs are not obligated to offer Individual Client Accounts to their customers. However CPs will be required to ensure that ASX's Client Fact Sheet is made available to all Clients, both existing and new.

# The Clearing Process

## What products are covered in ASX ETD Client Clearing Services?

All ASX 24 products across SFE, NZF and CFD exchanges

## Is there a change to ASX 24 ETD Trading Opening Hours?

There are no changes to the existing trading hours introduced through ASX 24 Exchange Traded Derivatives Client Clearing Services.

ASX Trade24 is available on a 24/6 basis from early Monday morning to Saturday morning. Please visit the ASX website for further details of trading hours per product <http://www.asx.com.au/about/trading-hours.htm>

## Is there a change to ASX 24 ETD Clearing Opening Hours?

There are no changes to the existing clearing hours introduced through ASX 24 Exchange Traded Derivatives Client Clearing Services.

The ASX Clear (Futures) Clearing system will be upgraded to the Genium INET Clearing system in Q2 '14 prior to the availability of the ASX ETD Client Clearing Service.

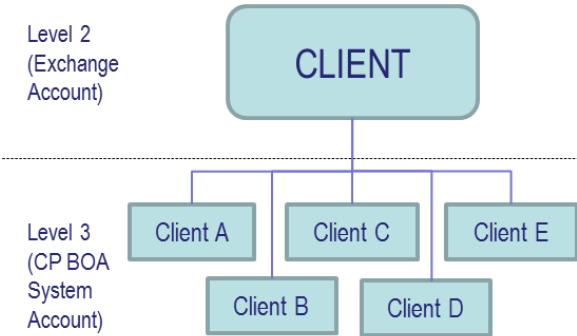
Genium INET Clearing will be available for CPs to allocate trades as per existing system functionality

## Are there any changes to how trade are executed as a result of ASX ETD Client Clearing Services?

There are no changes to the trade execution process.

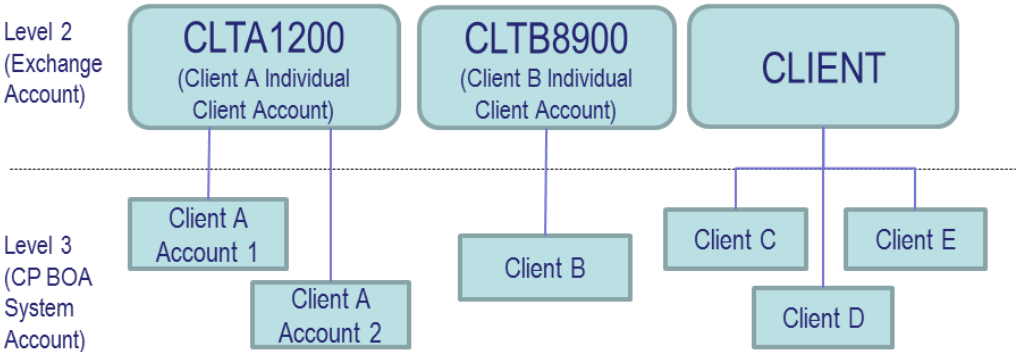
## Are there any changes to the trade clearing allocation process resulting from ASX ETD Client Clearing Services?

In the normal course of business, CPs will allocate trades to the CLIENT or HOUSE clearing account at ASX, against their client's clearing account in the CP's back office accounting system (CP BOA system).



For clients operating within an Individual Client Account, ASX will provide a unique exchange account code for each Individual Client Account.

CPs will clear trades to the respective exchange account code for the benefit of the client at ASX, and continue to clear these trades to the client's clearing account in the CP BOA system.



**I presently clear my Client's Open Contracts to a client level position account; will these accounts now be treated as Individual Client Accounts?**

Some CPs use client level position accounts at ASX with all CFD exchange traded contracts presently cleared to client level accounts only. Under this proposed structure, these accounts will remain and operate as level 3 accounts associated with a client omnibus account and as such will not be treated as Individual Client Accounts. There will be no change to the margin treatment for these accounts. Individual Client Accounts will only be created on request from the CP, with the static data referred to earlier in this document. Each Individual Client Account will be issued with a unique exchange account code. The margin treatment of the Individual Client Accounts will be calculated solely on the basis of the positions held within the Individual Client account and will not be calculated at the net omnibus Client account level.

# Position Closeouts

## How do I close out Open Positions in an Individual Client Account?

On a daily basis, CPs determine the number of Open Positions that should remain open in their House Omnibus and Client Omnibus account by referring to the Open Positions of Accounts held in their Back Office Accounting (BOA) system. CPs will close out any excess against Open Positions at ASX held in the House Omnibus Account or Client Omnibus Account by the prescribed time.

CPs will need to determine the Open Positions of those clients remaining in the Omnibus account/s, **in addition to** the Open Positions for each Individual Client Account that is to remain open. On a daily basis, CPs will be required to close out any excess against Open Positions in their Omnibus House Account, Omnibus Client Account **and any** Individual Client Accounts at ASX.

If a CP uses an API interface to manage their daily position close outs, the API interface will need to accommodate the additional Individual Client Accounts.

## My Client nets their full Open Position each day, can ASX close our excess automatically?

Yes, for Individual Client Accounts that represent a single account in the CPs BOA and net to a zero Long or Short position each day, ASX can set the Individual Client Account to automatically net.

# Risk Management

## What is ASX's Risk Methodology?

The ASX Clear (Futures) Risk Management approach is based on methodologies that are commonly used and considered to be international best practice. Margin requirements calculated are a primary daily obligation that a CP is required to collateralise with the ASX on a client's behalf. It should be noted that the amount of margin the client is expected to collateralise with its CP may not match ASX calculations, for example a CP may charge an additional amount on top of any initial margin requirements calculated by ASX.

## Are there any changes to the Initial Margin or Variation Margin process under ASX ETD Client Clearing Services?

Initial and Variation margin on exchange traded futures positions will be calculated using the same methodologies currently employed today, however initial margin calculations will be performed on an account by account basis i.e. separate margin requirements will be determined for individual client accounts and the net client omnibus account.

Account level initial margin requirements will be calculated using the widely adopted SPAN (Standard Portfolio Analysis of Risk) margining system, assessing the maximum potential loss on a given portfolio. Variation margin will continue to be assessed by marking all open contracts to end of day settlement prices.

With the introduction of the ASX OTC Client Clearing Service, CPs and their clients will have the ability to nominate eligible exchange traded futures positions to be cross margined. Any futures position that are accepted for cross margining will be margined using the methodologies defined as part of the OTC service. Additional information can be found through the OTC Client Clearing FAQ document.

## In addition to Variation Margin and Initial Margin, are there any other types of margin?

Yes, Stress Test Additional Initial Margins (AIMs) and Capital Based Position Limit (CPBL) addition margin

## What are Stress Test AIMs?

Additional Initial Margins (AIMs) are additional requirements that may arise through ASX's stress testing regime, where an additional margin requirement may be imposed on a CP as a result of a breach in monitoring their stressed exposures against an ASX assigned Stress Test Exposure Limits (STEL). Stress testing exposures will look at hypothetical losses generated on all positions in extreme but plausible market conditions. Calculations are performed at an account level before being aggregated to a CP total. In monitoring these exposures, an AIMs call will only be made where total losses exceed a CPs assigned STEL.

Although ASX does not directly charge the client AIMs, reporting is provided to CPs detailing exposures across all accounts. If an AIMs call is made, the CP may choose to recoup the costs or pass on a portion of that AIMs requirement to the end client.

## What is Capital Based Position Limit (CBPL) additional margin?

CBPL is a measure used to ensure that CPs do not accumulate positions that exceed their financial capacity. CBPL limits are calculated using initial margin as a measure of the size of a portfolio, and a CPs NTA as a measure of a CPs creditworthiness or financial capacity. If initial margin is more than twice the size of a CPs NTA, additional margin will be called to reduce this ratio.



## **What is ASX's intraday margining approach?**

ASX's intraday calculations seek to assess two main components of a CP or client's portfolio: the change in value and risk on the existing portfolio and any increased risk associated with new trades. Should there be sufficient initial margin erosion as a result of new positions, or movement in prices, an intraday margin call may be made to reduce ASX's intraday exposures.

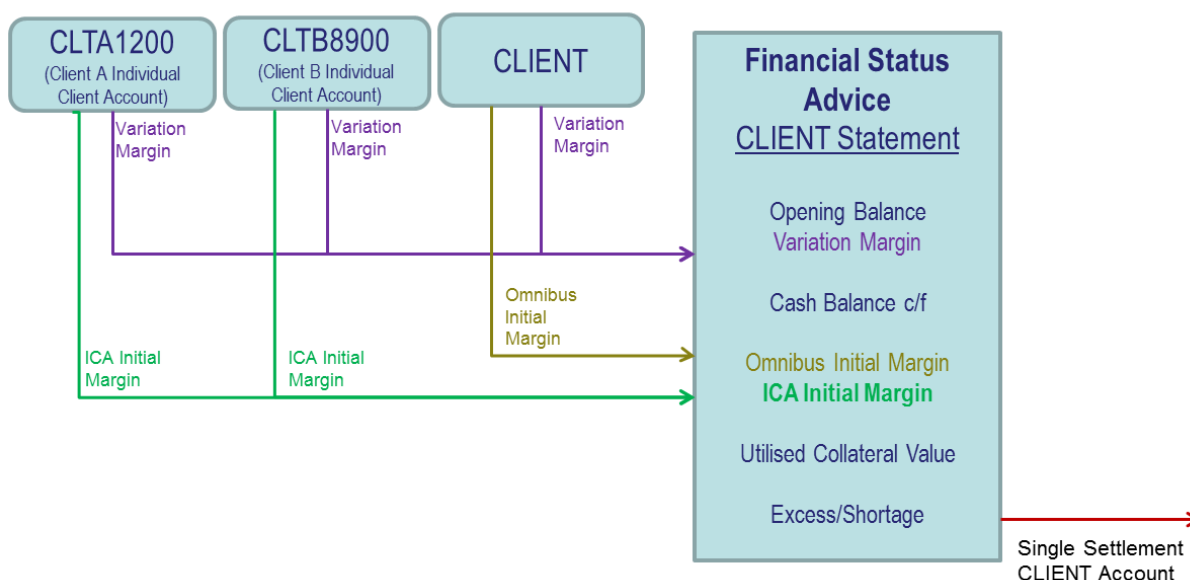
# Collateral Management

## How is collateral held and protected by the ASX?

CPs post collateral (cash or eligible non-cash collateral) to ASX to satisfy the initial margin requirement calculated by ASX with respect to the participant's Client Accounts. All collateral posted by a CP with respect to Client Accounts is comingled (mixed) by ASX in a single account. Clients have no legal right or interest in collateral posted to ASX.

However, in the event of CP default, ASX treats the cash *value* of initial margin calculated with respect to each Client Account as belonging to a particular account.

As collateral will be held as one pool of funds for the Client Clearing Account the total value will be presented to the CP on the existing CLIENT statement. There will be additional granularity provided to identify the Initial Margin attributed to the Omnibus Client Account, and the aggregate Initial Margin attributed to the CP Individual Client Accounts.



## What is the margin call procedure?

ASX will calculate margin requirements at scheduled intervals intraday and at the end of each business day on both OTC and futures positions. End of day calculations are performed after the close of the clearing service and requirements are notified to CPs the following morning for settlement at 11.00am.

In addition to end of day calculations, there are scheduled intraday margin calculations that run each business day at 8:30am and 11:00am that re-value positions and recalculate Initial Margin requirements. Please refer to the [Risk Management](#) section for the explanation of the margin components. If sufficient Initial Margin erosion has occurred on positions, an intraday call will be made. ASX will contact the CP via phone and provide an emailed report (Margin & Position Listing Report) which identifies the amount that the CP needs to settle (on behalf of its clients). Intraday margin calls must then be settled by the CP with \$A cash, within the time frame notified by ASX.

ASX may also from time to time initiate an ad hoc intraday margin run in response to stressed or volatile market conditions.

## **What happens if a client disputes a margin call?**

The ASX issues all margin calls to the CP. The CP may have different margin call and collateral payment arrangements in place with its client. Clients should liaise with their CP in relation to their margin call procedures.

## **What collateral does ASX accept?**

All Variation Margin payments are required to be settled in cash in the currency of the cash flow; however Initial Margin can be collateralised with cash in an approved non matching currency and or with non-cash collateral in accordance with delivery times specified by ASX.

A list of the current eligible collateral and associated valuation haircuts can be found at

[www.asx.com.au/services/clearing/acceptable-collateral.htm](http://www.asx.com.au/services/clearing/acceptable-collateral.htm).

## **What are haircuts and how are they applied?**

A haircut is a percentage reduction on the market value of the collateral that represents the potential movement in value (in stressed market conditions) before ASX can liquidate in the event of a CP default. A CP may advise of alternative haircut arrangements for clients when collateralising margin requirements; however this will need to be discussed directly with your CP

## **What are the options for a CP to send collateral to?**

For securities collateral, the CP can either:

- a) Lodge the collateral with ASX; or
- b) Hold the client's collateral and lodge other collateral with ASX.

In all cases, ASX receives all collateral related to margin requirements via the CP. (or a third party e.g. custodian if there is an arrangement in place).

## **How does client collateral get valued?**

The collateral that is sent by the CP to ASX is valued daily by ASX and reported back to the CP.

## **What is excess collateral?**

Excess collateral is any collateral value in excess of initial margin requirements on the CPs Client Clearing Account. For the initial launch of the ASX ETD Client Clearing Service, any excess collateral lodged by the CP on behalf of a client, will not be distinguished as belonging to specific accounts. As a result, and in the event that a CP does lodge excess collateral on an individual client account, ASX will be unable to determine which client account(s) the excess collateral relates to.

Accordingly in the event of a CP default, only the cash value of initial margin will be ported (where porting arrangements are in place), with the remainder being returned to the CP or an external administrator. Excess collateral may be applied by ASX to offset:

- losses incurred by ASX upon close-out or termination of positions in any client account of the defaulting CP that exceed the initial margin requirement in respect of the account; and

- shortfalls in the liquidated value of non-cash or cross-currency collateral as a consequence of insufficient collateral haircuts.

### **Can a client get its excess collateral returned?**

If the client holds excess with its CP, and the client wishes this excess to be returned in a Business-As-Usual (“BAU”) situation the client should liaise with their CP for specific timings of when they will receive any excess back from their CP.

### **What happens if the client does not have eligible collateral?**

If the client does not have collateral that is eligible under ASX definitions, then it will be at the CP’s discretion as to whether they accept non-eligible collateral and substitute it with eligible collateral. ASX does not offer collateral transformation services to clients and CPs.

# Cross Margining

## What is cross margining?

Cross margining is the concept of allowing trades in instruments in the same or similar asset classes (belonging to the same counterparty) to be included in the calculation of Initial Margin requirements. Positions in multiple asset classes would be included in one portfolio where there is some perceived margin benefit.

## Will it be possible to cross margin eligible ASX 24 Exchange Traded Derivatives with new services offered under ASX OTC Interest Rate Futures Client Clearing?

Yes, ASX will provide this feature only for clients who hold OTC and Exchange Traded Derivatives (ETD) positions with the same CP. Eligible ASX 24 Exchange Traded Derivatives may be combined with the OTC portfolios for margining purposes. Initial Margin will then be calculated based on the net risk of the combined OTC/Futures portfolio. The client may elect to allocate eligible ASX 24 Exchange Traded Derivatives for cross margining by notifying their CP. Note: the client must have both a separate OTC and Futures Individual Client Account (if applicable, both designating the same Nominated Person) with the same CP to take advantage of cross margining.

Please refer to the recently release ASX OTC Interest Rate Derivatives Client Clearing Service Frequently Asked Questions (FAQ) on the ASX website

## What eligible ASX 24 Exchange Traded Derivatives contracts are eligible for cross margining?

The following eligible ASX 24 Exchange Traded Derivatives contracts are eligible for cross margining:

Eligible ASX 24 Exchange Traded Derivatives Contract Code	Contract Name
IB	ASX 30 Day Interbank Cash Rate Futures
IR	ASX 90 Day Bank Accepted Bill Futures
YT	ASX 3 Year Treasury Bond Futures
XT	ASX 10 Year Treasury Bond Futures

## How can I find out more about the cross margining eligible ASX 24 Exchange Traded Derivatives with ASX OTC Interest Rate Futures Client Clearing?

Please refer to the recently release ASX OTC Interest Rate Derivatives Client Clearing Service Frequently Asked Questions (FAQ) on the ASX website

# Default Management

## What constitutes a default of a CP?

The ASX Clear (Futures) Operating Rules set out a number of events which ASX may treat as a default event. This includes, but is not limited to, bankruptcy of the entity or failure to meet a margin call.

## What happens if a client's CP goes into default?

In the event of a CP's default, ASX has the power to transfer (or "port") open positions in a Client Account, with cash collateral to the value of the associated initial margin requirement as at the last end-of-day calculation that the defaulting CP successfully settled. Porting will only be carried out where a Client with an Individual Client Account, or as applicable Nominated Person designated with respect to an Individual Client Account, has nominated an Alternate CP and that CP is willing to accept the portfolio (within the specified time frame). Clients that are constituents of a Client Omnibus account will only be ported where all clients agree, and have in place, an alternate clearing arrangement with the same Alternate CP. It is unlikely that an Alternate CP with whom all Omnibus clients are satisfied, and who is willing to accept all Omnibus clients, can be found without delay. Accordingly, clients in a Client Omnibus account should expect to have their positions terminated.

Once a CP is declared in default, all clearing activity of the CP and its clients are suspended. If a client does have, or establishes a clearing relationship with a non-defaulting CP, the client will still be able to trade, albeit without access to the positions and assets held at the defaulting CP. It is worth noting that in the event that a client is unable to port, its portfolios may be merged with the CP house portfolios for hedging and auction purposes (however clients will remain ring-fenced from losses on the defaulting CPs house account).

## What happens to a client's cross-margined positions if its CP goes into default?

In the case of cross-margined positions, the entire portfolio of OTC positions and eligible ASX 24 Exchange Traded Derivatives positions must be ported together to the Alternate CP. Therefore, if cross-margining is elected, a client's alternate arrangement with a CP must include the ability to clear both OTC derivatives and eligible ASX 24 Exchange Traded Derivatives.

## What is the timeframe for a client to port / find an Alternate CP?

Transfer arrangements must be confirmed by an Alternate CP in 24 hours, which is why it is advisable to ensure an Alternate CP has been selected in advance e.g. ideally as part of the on-boarding process. Where a client has made arrangements for Alternate CPs, in the event of the client's primary CP defaulting, the client's portfolio information will, depending on the client's instructions, be sent out to the Alternate CPs simultaneously, or in order nominated by the client, for the CPs to assess the portfolio. The first CP to accept will take the positions.

ASX 24 Exchange Traded Derivatives that have been assigned to a cross margining portfolio, have 48hrs to port, along with the OTC component of the portfolio.

## How does an Alternate CP decide whether it wishes to accept the client's positions?

ASX will provide details of the portfolio in the event of the client's primary CP being in default, this will facilitate the decision process.



## **What happens if the client is unable to port / find an Alternate CP?**

ASX reserve the right to close down the position, which means that the trades are terminated and the client, or as applicable Nominated Persons, (in the case of an individual Client account) or the CP (in the case of an Omnibus Account) will receive only any residual initial margin value, as calculated by the ASX in respect of the account after deducting close out costs.

## **What is the treatment of collateral in a default scenario?**

In the event of a default the collateral to be ported to an Alternate CP by ASX in respect of a client account, is a cash amount equal to the value of the initial margin requirement calculated by ASX in respect of the client account at the last time at which the defaulting CP settled its end of day initial margin obligations with ASX.

For Individual Client account type, only the CP will know which specific collateral is attributable to each client. The CP can choose what collateral they send to ASX to fulfil the margin obligation, and this may not necessarily be the exact same collateral that the client sent to their CP. However, it is planned in a future release that fully segregated accounts with a specific link between a client and its collateral will be made available hence allowing the return of the exact collateral.

## **What is the treatment of excess collateral in a default scenario?**

In the event that a CP defaults and positions cannot be ported, a cash amount to the value of initial margin less any costs, losses and expenses incurred by ASX in closing out the positions on all accounts will be returned to the client.

Excess collateral may be applied by ASX to offset: losses incurred by ASX upon close-out or termination of positions in any client account of the defaulting CP that exceed the initial margin requirement in respect of the account; and shortfalls in the liquidated value of non-cash or cross-currency collateral as a consequence of insufficient collateral haircuts.

The balance of any excess collateral will be returned to the defaulting CP's appointed administrator.

## **What is the default management process?**

When a CP is declared in default, all clearing activity of the CP and its clients is stopped. There are several options for ASX once a CP goes into default:

- Port the positions to an Alternate CP
- Extinguish the CCP's market exposure on remaining positions by closing out the defaulting CP's portfolio.

In the case of cross-margined positions, eligible ASX 24 Exchange Traded Derivatives positions selected for cross margining are managed as an entire portfolio with OTC positions under ASX OTC Client Clearing default management process

## **What happens if the client goes into default?**

In the event only the client defaults, it is the CP's obligation to cover for the client's positions. ASX can assist the CP to transfer the positions and assets into their house account. The CP can choose to unwind the defaulting client's positions and return any excess to the client.



**What is the default fund?**

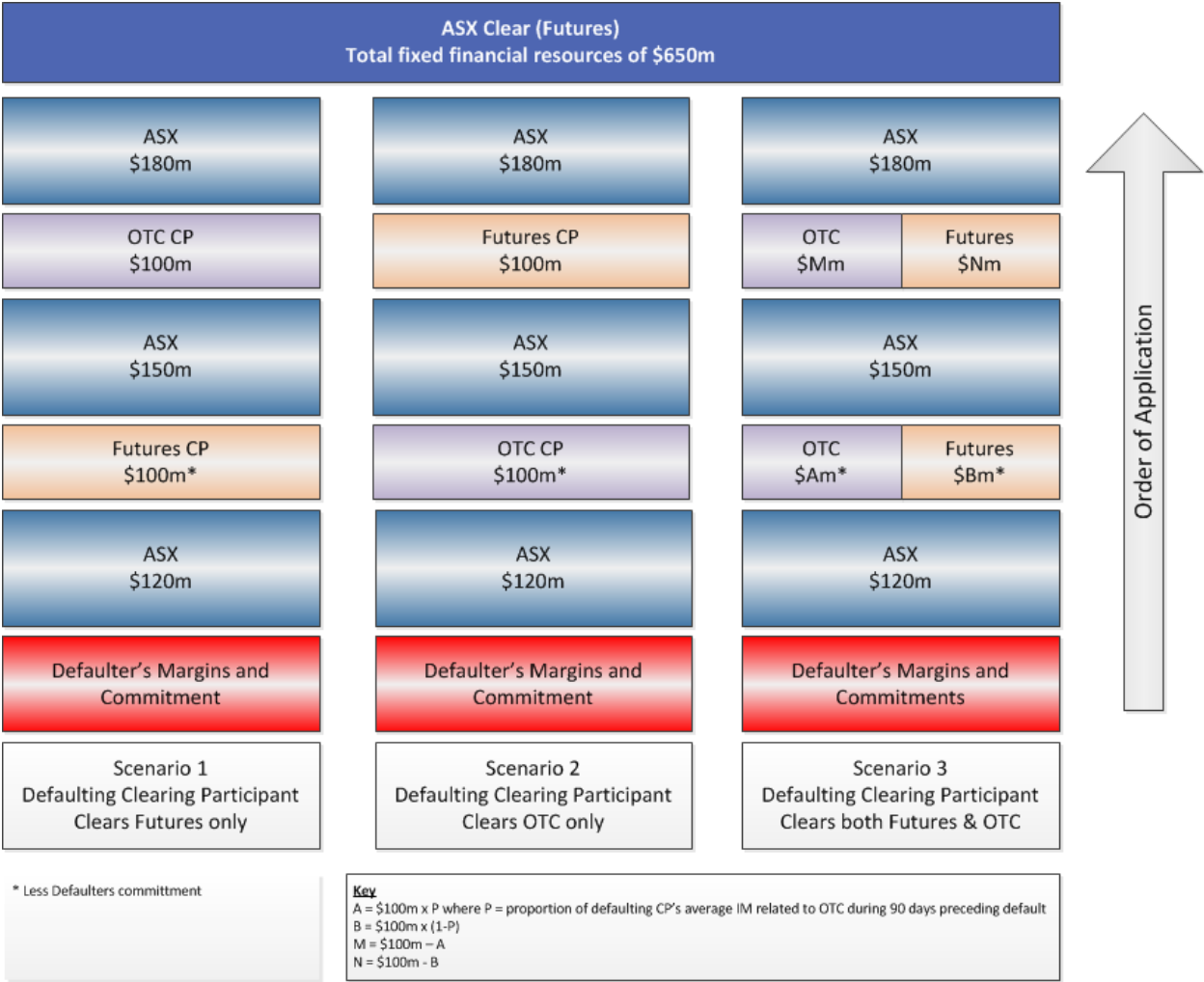
The default fund is the financial resources that the ASX has available to cover the losses that have been incurred following the closing out of positions for a defaulting participant after all the defaulting participants margins and commitments have been exhausted. The financial resources comprise of commitments from participants and funds provided by the ASX group.

**What is the risk waterfall?**

The risk waterfall determines in which order the financial resources available to ASX are allocated to the losses

**What is the structure of the risk waterfall?**

ASX has a risk waterfall with a high level of its own capital that is at risk. Depending on the type of default the following loss allocation scenarios are as below:



**How do default fund contributions work?**

The default contribution has two parts: there is a fixed contribution amount that is applied equally to all CPs, and a variable contribution amount that is based on each member's combined House and Client Initial margin contributions. The default fund contribution is calculated on a quarterly basis.

# Reports

## What reports does ASX intend to make available to CPs

The ASX will continue to provide CPs with daily reports, many of which will contain the additional granularity of details across each Client Omnibus or Individual Client Account. Where there is a specific information pertaining to activity within the CPs Individual Client Accounts that is not already created for, ASX will create new reports for distribution.

## What are the key reports will ASX provide with the additional detail

- Position Summary Report
  - Frequency: Daily
  - Content: Opening position, Today's Movement and Closing position per Exchange account (Omnibus account and each Individual Client Account)
- Clearing Activity Report
  - Frequency: Daily
  - Content: Detail of each cleared trade with reference. Page break per Exchange account (Omnibus account and each Individual Client Account)
- Daily Registration Report
  - Frequency: Daily
  - Content: Detail of each cleared trade with Exchange account and variation margin calculation

## How does the CP access the reports?

CPs will access reports via Genium INET Clearing, as per existing functionality. ASX intends to offer an SFTP solution for the distribution of all ASX Clear (Futures) CP reports by Q214.

## What reports will ASX make directly available to Clients for ASX ETD Client Clearing Service?

The ASX intends to provide clients, and where a Nominated Person has been notified to ASX Clear (Futures) in respect to an Individual Client Account, that Nominated Person with access to the following reports.

- Client Static Data report for Individual Client Accounts

Report content includes:

- Client Name, Legal Entity Identifier
- Address Information
- Account Type
- Settings for trade netting
- CP (& alternate CP information)
- Legal, Operations and Default Event contact details and methods
- 
- Position Summary Report
  - Frequency: daily
  - Content: Open Position per Individual Client Account, Initial Margin value of Open Position per Individual Client Account
- Market Data report

Report contents:

- ASX SPAN Risk Parameter File (note this is currently publically available)  
<http://www.asx.com.au/prices/span.htm>

## Contact Us

**For further information please contact ASX Business Development:**

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# Glossary

**Alternate CP** – a secondary CP nominated by a client to port a client’s positions and assets to in the case the client’s primary CP is declared to be in default. It is preferable but not mandatory for back-up CPs to be nominated in advance of a default.

**ASX** - ASX Clear (Futures) Pty Limited

**Central Counterparty (“CCP”)** – A piece of market infrastructure that sits between the two original parties to the transaction, taking care of post-trade considerations and guaranteeing performance throughout the life of the transactions. A trade must be novated to face the CCP in order for it to perform these functions.

**CP (“CP”)** - A market participant that joins ASX directly as a ‘participant’ to clear their own trades and/or those of their clients. In the context of client clearing, a CCP enables its direct CPs “CPs” to intermediate between itself (the CCP) and the indirect Clients (i.e. market participants who are not direct CPs of the clearing service) to facilitate clearing of ASX 24 Exchange Traded Derivatives transactions. The CP must segregate house business and client business and these are referred to as follows in the document:

- CP House account – this is the account through which the CP must clear all its own business.
- CP Client account – this is the account which is used to settle the clearing business of all clients of that CP. Margins are settled as one amount.

**Client** – Indirect participants who do not have direct membership to the ASX and who must clear their ASX 24 Exchange Traded Derivatives transactions through CPs (Direct participants). Clients can be standalone or consist of a group of related entities.

**Client Clearing Portfolio Cross Margining (“X-M”) account** – Records the CP’s client clearing eligible ASX 24 Exchange Traded Derivatives positions which are eligible to be portfolio-margined with OTC Interest Rate Derivatives and have been selected by the client to be portfolio-margined with OTC Interest Rate Derivatives

**Client Omnibus** – Client positions and client assets are held in one account and the CCP cannot identify the individual end client. The CP can cross-utilise client margins and may not place assets with the CCP. Portability with this account structure is only possible if all clients of a defaulting CP port to the same Alternate CP.

**Cross Margining** - The concept of allowing trades in instruments of different asset classes (belonging to the same counterparty), to offset each other for the purpose of measuring Initial Margin.

**Entity** – Entities are sub accounts of a client. They may be legal entities in their own right or branches/divisions of the Client account

**Excess collateral** - Collateral posted in excess of margin liabilities or headroom created against existing collateral through a decline in associated margin liabilities. In the event of the CP’s default, excess collateral will be at risk to losses arising in respect of any Omnibus Account or Individual Client Account of the CP.

**Guaranteed Initial Margin Value** – The collateral to be ported by ASX in respect of a client account is a cash amount equal to the value of the initial margin requirement calculated by ASX in respect of the client account at the last time at which the defaulting CP settled its end of day initial margin obligations with ASX (“**Guaranteed Initial Margin Value**”). That amount excludes the value of end of day margin calls not settled by the defaulting CP and intraday margin calls whether settled or not. Where porting of positions in a client account does not occur, the ASX 24 Exchange Traded Derivatives Client Clearing – FAQ, Clearing Participants

amount to be returned by ASX is the Guaranteed Initial Margin Value for the account net of losses, costs and expenses attributable to closing out the positions in the account.

**Individual Client Account** – This structure legally separates positions, but operationally comingles them and the associated collateral. CP's assets and client positions for client clearing are identifiable by the CCP, and cannot be utilised for margining of other clients of the CP. Assets held in a CP's Client Clearing account are not directly attributable to individual clients. The CCP only recognises collateral to the value of initial margin as at the last settlement. In the event of a CP default, it is this amount that would be ported to an alternate CP or (less expenses) returned to the client.

**Initial Margin ("IM")** – Initial Margin (IM) represents the amount of collateral required by ASX to mitigate market risk on cleared futures positions. ASX uses the widely adopted SPAN (Standard Portfolio Analysis of Risk) margining system to assess the maximum potential loss on a given portfolio. Initial margin can be covered with either cash or eligible non-cash collateral.

**Intraday Margin ("ID")** – In periods of extreme market volatility, ASX may call its CPs for additional collateral intraday. ASX intends to have a mix of scheduled and ad hoc intraday margin calls throughout the day and based on the level of market volatility relative to existing margin cover.

**Legal Entity Identifier ("LEI")** - A Legal Entity Identifier (LEI) is a unique ID associated with a single corporate entity in accordance with the ISO 17442 standard (such as the CFTC Interim Compliant Identifier – CICI)

**Nominated Person** - The person notified as such to ASX in accordance with Rule 115.4. A Client may provide to the ASX the contact and bank account details of its end user client (Nominated Person) in respect of an Individual Client Account opened by that Client for the Nominated Person.

**Portability** – The transfer of positions and assets of a client to an Alternate CP in the event that their primary CP goes into default.

**Variation Margin ("VM")** – Variation Margin (VM) represents the Mark to Market movement on open futures positions. VM is currently calculated by marking all open contracts to end of day settlement prices. All VM settlement needs to be in paid in cash and in the same currency as the underlying product.