



*The information below has been compiled by ASX management. Please note that the RBA and ASIC separately assess ASX Group's CS licensees' compliance with the PFMI and FSS.*

# Principles for Financial Market Infrastructures (“PFMI”) Disclosure Framework

June 2015

## ➤ ASX Group – Financial Market Infrastructures (“FMIs”)

### ASX Clearing Houses

- ASX Clear Pty Limited (“ASX Clear”)
- ASX Clear (Futures) Pty Limited (“ASX Clear (Futures)”)

### ASX Securities Settlement Facility

- ASX Settlement Pty Limited (“ASX Settlement”)

### ASX Fixed Interest Depository

- Austraclear Limited (“Austraclear”)

## ➤ Australian Regulatory Authorities

### Australian Securities and Investments Commission (“ASIC”)

- regulator of securities and derivatives markets
- focus on market integrity

### Reserve Bank of Australia (“RBA”)

- Australia's central bank
- focus on financial and systemic stability
- determine the Financial Stability Standards (“FSS”)

### Australian Prudential Regulation Authority (“APRA”)

- the prudential regulator of the Australian financial services industry
- focus on financial system stability



DOWNLOAD

ASX's FMIs have been [assessed](#) by ASIC and the RBA as complying with all PFMIs.

# Key facts about ASX's Financial Market Infrastructures

## Credit Rating

- ✓ ASX Clear  
[DOWNLOAD](#)
- ✓ ASX Clear (Futures)  
[DOWNLOAD](#)



## QCCP

- ✓ ASX Clear
- ✓ ASX Clear (Futures)



Qualifying CCP  
("QCCP") Status  
confirmed



## Domestic Standards

- ✓ ASX Clear
- ✓ ASX Clear (Futures)
- ✓ ASX Settlement
- ✓ Austraclear



Financial Stability  
Standards compliance

## International Standards

- ✓ ASX Clear
- ✓ ASX Clear (Futures)
- ✓ ASX Settlement
- ✓ Austraclear



Principles for  
Financial Market  
Infrastructures [PFMIs]  
compliance

- ✓ ASX Clear
- ✓ ASX Clear (Futures)



Recognition April 2015

- ✓ ASX Clear (Futures)



"No action" relief  
in place

# Principles for Financial Market Infrastructures ("PFMI") Disclosure Framework

## I. Executive Summary: Our Business & Customers

ASX Group ("ASX") is the brand name under which ASX Limited and its subsidiaries operate. ASX is one of the world's leading financial market exchanges, offering a full suite of services, including listings, trading, clearing and settlement, across a comprehensive range of asset classes.

As the first major financial market open every day, ASX is a world leader in raising capital, consistently ranking among the top five exchanges globally.

With a total market capitalisation of around \$1.5 trillion, ASX is home to some of the world's leading resource, finance and technology companies. Our \$47 trillion interest rate derivatives market is the largest in Asia and among the biggest in the world.

ASX's domestic and international customer base is diverse. It includes issuers (such as corporations and trusts) of a variety of listed securities and financial products, investment and trading banks, fund managers, hedge funds, commodity trading advisers, brokers and proprietary traders, market data vendors, other listing and trading vendors, and retail investors.

We operate in a world class regulatory environment, meeting the highest global standards. Our clearing houses are among the most secure and well capitalised in the world, and help underpin the stability of Australia's financial markets.

ASX Group is structured to provide fair and reliable systems, processes and services that instil confidence in the markets that depend on ASX's infrastructure.

Confidence in the operations of the companies within the ASX Group is reinforced by the whole-of-market regulation undertaken by ASIC across all trading venues and clearing and settlement facilities, as well as the financial system stability oversight by the RBA of ASX Group's Clearing and Settlement ("CS") facilities. ASIC also supervises ASX's own compliance with the ASX Listing Rules as a listed company.

The ASX Clearing and Settlement ("CS") subsidiary boards provide a focus on risk management and oversight of the operations of ASX's CS subsidiaries, including overseeing management of clearing and settlement risks. Further details regarding ASX's corporate governance arrangements are set out in Section III under "General Organisation of the FMI".

ASX's Risk operating division is responsible for ensuring ASX identifies, analyses and effectively manages the entire range of risks inherent in all the Group's activities while having direct responsibility to specifically manage clearing related risks.

Clearing risk management activities for ASX's central counterparty services are designed to ensure the integrity of the marketplace is maintained through the operation of the clearing houses irrespective of events such

as the insolvency of a clearing participant and without impacting other clearing participants and their clients. These activities are primarily focused on credit risk (the likelihood of a clearing participant becoming insolvent) and market risk (the exposure of the clearing house to a clearing participant were it to become insolvent), and include minimum participant capital requirements, participant admission criteria, margins and position monitoring, and stress testing of the capital and liquidity of the clearing houses.

ASX's securities settlement facilities assist ASX participants to more effectively minimise their settlement and operational risk. ASX's two settlement facilities provide a 'delivery versus payment' settlement service, secure asset holding services, and a wide network that enables 'straight through processing'. ASX's Operations division has direct responsibility to specifically manage settlement related risks.

### Recent Initiatives

#### Renminbi Settlement:

ASX and the Bank of China launched an RMB settlement service in July 2014. The service allows Australian companies to pay and receive RMB in near real-time and in the same way they transact in Australian dollars using Austraclear.

#### Client Segregation Enhancements – ASX Settlement:

ASX has and is making rule and process changes for the purpose of enhancing the protection of client stock and funds during the settlement process between

Trade date (T) and Settlement date (T+3). The changes are being introduced in two phases. The first phase, completed in April 2014, introduced rule changes regarding the requirements to reconcile omnibus accounts used in preparation for settlement and to ensure funds being held in participant trust accounts can only be withdrawn once the underlying client has been allocated the respective stock to which the funds relate. Phase 2 includes changes to CHES messaging flows to technically enforce Phase 1. Implementation of Phase 2 is scheduled for May 2015.

### II. Summary of major changes

Two independent Australian government entities – the RBA and ASIC – are members of the Committee on Payments and Market Infrastructures ("CPMI", previously the Committee on Payment and Settlement Systems ("CPSS")) and the International Organisation of Securities Commissions ("IOSCO") respectively, and are responsible for implementing the CPMI-IOSCO Principles for Financial Market Infrastructures in Australia.

In December 2012, the RBA published new [Financial Stability Standards](#) ("FSS") which apply to central counterparties ("CCPs") and securities settlement facilities ("SSFs") in Australia. The FSS are aligned with the requirements in the CPMI-IOSCO Principles that address matters relevant to financial stability.

# Principles for Financial Market Infrastructures ("PFMI") Disclosure Framework

In the same month, ASIC published Regulatory Guide 211 – Clearing and Settlement facilities: Australian and overseas operators, which incorporates the CPMI-IOSCO Principles that are relevant to ASIC's regulatory remit.

The RBA's Payments System Board granted transitional relief from several FSS relating to recovery and resolution until 31 March 2014, given their dependence on the finalisation of policy work and legislative change. An implementation plan has been agreed with the RBA for compliance with these FSS given the expiration of the transitional relief.

The effective date for the new FSS in Australia was 29 March 2013. On 16 August 2013, the RBA advised ASX of supplementary interpretive guidance for the application of the FSS to ASX Clear (Futures) because it is a domestically licensed facility, which provides services to clearing participants established in the European Union. On 27 October 2014, the RBA extended this supplementary interpretive guidance to ASX Clear.

ASX [responded](#) to the RBA with details of the actions that the CCPs are taking to address the supplementary interpretive guidance for the standards.

On 27 April 2015, ESMA recognised ASX Clear and ASX Clear (Futures) as third party CCPs which allows them to provide clearing services to clearing members established in the European Union.

This document is ASX Group's response to the CPMI-IOSCO Principles for Financial Market Infrastructures.

### III. General Background on the FMIs

#### General description of the FMIs and the markets they serve

ASX Group's CS subsidiaries comprise six entities. There are four companies that hold CS licences required to operate CS facilities and there are two intermediate holding companies – ASX Clearing Corporation Limited ("ASX Clearing Corporation") and ASX Settlement Corporation Limited ("ASX Settlement Corporation"). These facilities are all owned by ASX Limited, which is the listed holding company for these entities. Related bodies corporate within the ASX Group assist the CS subsidiaries in the performance of their licence obligations.

ASX's FMIs provide central counterparty risk transfer (via subsidiaries of ASX Clearing Corporation); and securities settlement (via subsidiaries of ASX Settlement Corporation) for the ASX market – including equities, warrants, interest rate securities and equity-related derivatives – for the Chi-X market, for the ASX24 market – including futures and options – and for over-the-counter interest rate derivative products. Securities settlement is also provided for cash equities traded on the NSX, SIM and APX markets and for the OTC market for fixed income securities and discount securities.

### Clearing

ASX Clearing Corporation assists ASX participants to more effectively undertake their clearing activity by reducing systemic risk, minimising counterparty risk and by increasing capital efficiency and operating efficiency. This is achieved through ASX Clearing Corporation's wholly owned subsidiaries, ASX Clear Pty Limited ("ASX Clear") and ASX Clear (Futures) Pty Limited ("ASX Clear (Futures)"), which operate clearing facilities and provide central counterparty facilities.

#### ASX Clear

ASX Clear operates a clearing facility and provides CCP services for financial products traded on the ASX market, including equities, warrants, interest rate securities and equity related derivatives (comprising exchange traded options and futures) and for equities traded on the Chi-X market.

ASX Clear is authorised to clear transactions for certain customers located in a number of jurisdictions, including the EU and United States.

ASX Clear is currently the sole provider of clearing services for Australia's equity markets, and has made a number of commitments to customers of its cash equities clearing services which are set out in a [Code of Practice](#).

ASX Clear operates the Derivatives Clearing System ("DCS") to register and clear equity related derivative products and the Clearing House Electronic Subregister System ("CHES") to register and clear cash equities, interest rate securities and warrants.

ASX Clear participants and stakeholders can refer to [www.asx.com.au/services/clearing/asx-clear.htm](http://www.asx.com.au/services/clearing/asx-clear.htm) to obtain information regarding ASX Clear.

#### ASX Clear (Futures)

ASX Clear (Futures) operates a clearing facility and provides CCP services for derivative products traded on the ASX 24 market and for over-the-counter interest rate derivative products.

ASX Clear (Futures) is authorised to clear transactions for certain customers located in a number of jurisdictions, including the EU and United States.

ASX Clear (Futures) operates Genium INET to register and clear futures and options and Calypso for over-the-counter interest rate derivative products.

ASX Clear (Futures) is the clearing facility and CCP for all futures and options in interest rate, equity, energy and commodity products that are traded on the ASX Trade24 platform.

ASX Clear (Futures) participants and stakeholders can refer to [www.asx.com.au/services/clearing/asx-clear-futures.htm](http://www.asx.com.au/services/clearing/asx-clear-futures.htm) to obtain information regarding ASX Clear (Futures) and its products.

# Principles for Financial Market Infrastructures ("PFMI") Disclosure Framework

## Settlement

ASX Settlement Corporation assists ASX participants to more effectively minimise their settlement and operational risk. This is achieved through ASX Settlement Corporation's wholly owned subsidiaries, ASX Settlement Pty Limited ("ASX Settlement") and Austraclear Limited ("Austraclear").

These two settlement facilities provide a 'delivery versus payment' settlement service, secure asset holding services as well as a wide network that enables 'straight through processing'.

## ASX Settlement

ASX Settlement operates the SSF for cash equities, interest rate securities and warrants traded on the ASX market, and for cash equities traded on the Chi-X, NSX, SIM and APX markets. The facility enables parties to transactions conducted on the ASX to meet obligations to each other and allows for the registration and transfer of holdings of securities traded on the ASX.

ASX Settlement is currently the sole provider of settlement services for Australia's equity markets, and has made a number of commitments to customers of its cash equities settlement services, which are set out in a [Code of Practice](#).

ASX Settlement has announced that it will move from a T+3 to a T+2 settlement cycle in the first quarter of calendar year 2016. ASX Settlement's decision to shorten the settlement cycle by a business day was based on industry consultation and a

recommendation provided by an industry advisory Forum established by ASX under the Code of Practice.

ASX Settlement operates CHES to transfer and settle cash equities, interest rate securities and warrants.

ASX Settlement participants and stakeholders can refer to [www.asx.com.au/services/settlement/asx-settlement.htm](http://www.asx.com.au/services/settlement/asx-settlement.htm) to obtain information regarding ASX Settlement, CHES and its services.

## Austraclear

Austraclear operates a settlement facility and central securities depository ("CSD") for trades executed in the OTC market for fixed income securities (including Government Bonds and Repos) and discount securities (including Bills, Electronic Certificates of Deposit, and Promissory Notes).

Austraclear operates Exigo as the technical platform that supports the settlement facility and CSD operational environment.

Austraclear participants and stakeholders can refer to [www.asx.com.au/services/settlement/austraclear.htm](http://www.asx.com.au/services/settlement/austraclear.htm) to obtain further information.

## Key statistics

Most key CS systems operate to a 99.80% minimum availability target, while Exigo operates to a 99.90% minimum availability target. Capacity utilisation is continually monitored to maintain capacity headroom of 50% above peak utilisation.

Please refer to the [ASX Group Monthly Activity Reports](#) for periodic summaries of the CS infrastructure's performance.

## General Organisation of the FMI (Governance)

The ASX Limited Board has responsibility to oversee the conduct of the ASX Group consistent with its licence obligations, as well as public policy objectives directed at financial market and payments system integrity. The ASX Limited Board Charter, available on the ASX website at: [www.asx.com.au/about/corporate-governance.htm](http://www.asx.com.au/about/corporate-governance.htm) sets out in detail the functions of the ASX Limited Board.

The CS Boards provide a focus on risk management and oversight of the clearing and settlement operations of the CS subsidiaries, including overseeing management of clearing and settlement risk.

In particular, the ASX Limited Board relies on the CS Boards to review and provide oversight of risk management processes, internal controls and compliance systems in respect of:

- the management accounts of the CS subsidiaries which are prepared on a quarterly basis, and full year CS financial reports and statements;
- the management of clearing and settlement risks (being predominantly the clearing counterparty credit risk, the treasury investment risk and the liquidity risk of the CCP clearing subsidiaries and settlement risks within the SSFs); and

- compliance with the FSS determined by the RBA.

The CS licensees have arrangements in place with subsidiary companies to provide support services for compliance and enforcement services, approval and monitoring of conflicts handling arrangements and resourcing, which include intra-group agreements.

Further details about the CS Boards governance and ownership arrangements are contained in the CS Boards Charter, which is available at: [www.asx.com.au/about/corporate-governance.htm](http://www.asx.com.au/about/corporate-governance.htm)

Other key governance documents relating to the ASX Group including the ASX Limited Board Charter, the Board and Committee Charters, the ASX Limited Board Policy and Guideline to Relationships Affecting Independent Status and ASX's Conflict Handling Arrangements are also available at: [www.asx.com.au/about/corporate-governance.htm](http://www.asx.com.au/about/corporate-governance.htm)

## Internal Audit

Internal Audit is an independent assurance function established by ASX management. The principal objective of Internal Audit is to provide independent, objective assurance and consulting services designed to add value and improve the operations of ASX. Internal Audit helps ASX accomplish its objective by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management and internal control and governance processes.



## Principles for Financial Market Infrastructures (“PFMI”) Disclosure Framework

The Clearing and Settlement Boards are responsible for oversight of risk management (including internal controls and Internal Audit matters) relevant to the licensed clearing and settlement facilities and the Audit and Risk Committee (ARC) is responsible for oversight of ASX Group enterprise wide risk. The ARC reviews and concurs on the appointment, replacement, dismissal and remuneration of the General Manager, Internal Audit.

The ARC reviews the performance, objectivity, independence and effectiveness of the Internal Audit function, and also reviews and approves the overall annual risk based internal audit plan. The annual plan for the audits that relate to clearing and settlement are also reviewed by the CS Boards.

The General Manager, Internal Audit reports to the ARC and the Managing Director and CEO for functional audit processes and to the Chief Risk Officer for administrative purposes. The General Manager, Internal Audit also has a direct line of reporting access to the CS Boards and the ASX Compliance Board. Internal Audit personnel report to the General Manager, Internal Audit and have no line responsibility or authority over any of the activities or operations that they audit. The [Internal Audit Charter](#) provides a documented escalation process for audit reporting.

Internal Audit work is performed regularly throughout the financial year. All audit work is performed with reference to an

Internal Audit Methodology that requires the auditor to obtain and document the underlying processes, risks and controls. The methodology has been quality reviewed by an external party and found to be consistent with good practice for an organisation of the size and nature of ASX.

### External Audit

The ARC consider and review the scope of work, reports and activities of the external auditor including interaction with Internal Audit. The ARC also review the findings of the audit with the external auditor.

PricewaterhouseCoopers (PwC) was the auditor of ASX Limited and all subsidiaries for the financial year ended 30 June 2014.

The audit of the ASX Limited Financial Statements was recently completed for the financial year ended 30 June 2014. The [ASX Limited Annual Report](#) was released to the market on 21 August 2014, and contains the PwC audit opinion.

ASX Clear Operating Rule 1.22.1 requires an independent auditor to conduct an annual review of the clearing system(s) the CCP uses. ASX Clear uses the Derivatives Clearing System (DCS) to register and clear equity related derivative products and the Clearing House Electronic Subregister System (CHES) to register and clear cash equities, interest rates securities and warrants. The PwC audits of [DCS](#) and [CHES](#), for the financial year ended 30 June 2014, are available on the ASX website.

Austraclear Regulation 18.3 requires the auditor to issue an annual report to Austraclear based on the auditor's latest audit of Austraclear's information technology control environment procedures in relation to the system. PwC's audit of [Austraclear](#), for the financial year ended 30 June 2014 is available on the ASX website.

### Legal and regulatory framework Overview and key regulators

ASX operates in a highly regulated environment overseen by two independent government agencies –ASIC and the RBA. These government regulators have extensive powers to enforce the laws and regulations that govern financial markets in Australia.

The Assistant Treasurer (“the Minister”) has primary responsibility for licensing CS facilities operating in Australia and for granting exemptions from the requirement to hold a CS facility licence. The Minister has the power to disallow amendments to the operating rules of the CS facilities, which must be submitted by the CS facilities for Ministerial review as soon as practicable after being made. ASIC is the principal regulatory authority advising the Minister in relation to the exercise of his functions and powers. ASIC assesses each CS facility licensee on its compliance with its licence obligations under the Corporations Act annually. The RBA determines FSS, annually assesses CS facility licensees on their compliance with them and advises the Minister in relation to certain matters. The Department of Treasury advises the Minister on clearing and settlement policy.

The FSS are determined by the RBA under the Corporations Act. A CS facility licensee that operates a CCP or SSF must comply with the applicable FSS. As of 28 February 2015, the FSS are consistent with the CPMI-IOSCO Principles for FMI.

The RBA has responsibility for assessing whether licensed clearing and settlement facilities, including those operated by ASX Group, have complied with the RBA's FSS and done all other things necessary to reduce systemic risk.

ASIC is responsible for the supervision of real-time trading on Australia's domestic markets, including those operated by ASX Group. ASIC is also responsible for enforcing the laws against misconduct on Australia's financial markets, as well as supervising Australian Financial Services Licence (“AFSL”) holders.

[The Council of Financial Regulators](#) (“CFR”) is the coordinating body for Australia's main financial regulatory agencies. Its members are the RBA (Chair), the Australian Prudential Regulation Authority (“APRA”), ASIC and Treasury. It aims to facilitate cooperation and collaboration between RBA, APRA, ASIC and Treasury.

# Principles for Financial Market Infrastructures ("PFMI") Disclosure Framework

## Regulatory Assessments

ASX is subject to annual assessments of certain ASX Group licensees by both ASIC and the RBA.

### ASIC

The scope of ASIC assessments can include any or all of the obligations of a market operator or CS facility licensee under s792A(c) and 821A(c) of the Corporations Act 2001 (Cth) to have adequate arrangements for operating a market or facility. The assessments also include ensuring that there are adequate arrangements for handling conflicts of interest and monitoring and enforcing operating rules, as well as having sufficient financial, technological and human resources to properly operate the facilities. At the conclusion of each assessment, ASIC releases a Market Assessment Report.

The latest [ASIC Market Assessment Report](#) of ASX Group licensees was released in July 2014 and covered the period 1 July 2012 to 30 June 2013. Overall, the assessment concluded that ASX Group licensees met their statutory obligations in the assessment period.

### RBA

The RBA conducts an annual assessment of how well each of ASX's CS facilities are complying with the RBA's Financial Stability Standards and the more general obligation to do all other things necessary to reduce systemic risk. The RBA publishes its findings after having reported to the Minister with portfolio responsibility for Corporations Law.

In their most [recent assessment](#) of ASX's CS facilities against the FSS, the RBA found that all four CS facilities either observed or broadly observed all relevant requirements under the FSS during FY14. The RBA concluded that the facilities conducted their affairs in a way that causes or promotes overall stability in the Australian financial system.

### PFMI – Joint assessment

ASIC and the RBA share joint responsibility for assessing how well ASX's CS facilities observe the requirements of the PFMI, though ASIC holds sole responsibility for certain PFMI that have not been incorporated into the FSS.

As part of their commitment to periodically carry out assessments of licensed domestic CS facilities against the PFMI, the RBA and ASIC released the findings of their first joint-assessment of ASX's CS facilities in September 2014.

The assessment deemed all four ASX licensed CS facilities to be systemically important to the Australian financial system and concluded that ASX's CS facilities either observe or broadly observe all relevant PFMI. Please refer to [the joint assessment of ASX's CS facilities against the PFMI](#) for further details.

### The Corporations Act

The Corporations Act 2001 (Cth) ("the Act") is the principal Australian legislation for the regulation of post trade infrastructure (CS). In Part 7.3 the Act provides a licensing

framework for domestic as well as overseas CS facilities that seek to operate in Australia.

Within ASX:

- ASX Clear and ASX Clear (Futures) are separately licensed to operate CCPs;
- ASX Settlement and Austraclear are separately licensed to operate SSFs.

The terms of these CS facility licences are [publicly available](#).

Under the Act a CS facility licensee must (among other things):

- to the extent that it is reasonably practicable to do so:
  - comply with the FSS and do all other things necessary to reduce systemic risk; and
  - do all things necessary to ensure that the facility's services are provided in a fair and effective way;
- comply with the conditions on the licence;
- have adequate arrangements (whether they involve a self-regulatory structure or the appointment of an independent person or related entity) for supervising the facility, including arrangements for:
  - handling conflicts between the commercial interests of the licensee and the need for the licensee to ensure that the facility's services are provided in a fair and effective way; and

- enforcing compliance with the facility's operating rules; and
- have sufficient resources (including financial, technological and human resources) to operate the facility properly and for the required supervisory arrangements to be provided.

### Payment Systems and Netting Act

The Payment Systems and Netting Act 1998 ("PSNA") provides certain protections under Australian law, from reversal or invalidation under the laws of any jurisdiction, of termination, netting and settlement of obligations effected in accordance with the operating rules of ASX's CS facilities, where a participant in the CS facility goes into external administration, as follows:

- Part 2 protects real time gross settlements ("RTGS") effected through an approved RTGS system (each of Austraclear and ASX Settlement has this approval, although ASX Settlement does not routinely offer RTGS functionality);
- Part 3 protects net settlements effected through an approved netting arrangement (each of Austraclear Limited and ASX Settlement has this approval, although Austraclear does not routinely offer net settlement functionality); and



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- Part 5 protects the termination, valuation and netting of obligations, and enforcement of security, by a CCP that operates an approved “netting market” (each of ASX Clear and ASX Clear (Futures) has this approval). Part 5 also protects the porting of client positions and collateral by the CCP in the event that a Clearing Participant defaults.

## Other regulation

ASIC and the RBA have [confirmed publicly](#) that they apply domestic regulations that are consistent with the CPMI-IOSCO Principles for Financial Market Infrastructures to domestically licensed clearing and settlement facilities, including ASX Clear and ASX Clear (Futures). On the basis of that advice, the Australian Prudential Regulation Authority (APRA) has [confirmed publicly](#) that it considers each of ASX Clear and ASX Clear (Futures) to meet the criteria for a “Qualifying CCP” (or “QCCP”) as defined under Prudential Standard APS 112 Capital Adequacy: Standardised Approach to Credit Risk (APS112). (The QCCP eligibility criteria prescribed by APS112 are consistent with those applicable under the Basel III regulatory framework for banks). This means that, where an Authorised Deposit-taking Institution (ADI) satisfies all applicable conditions under APS112, the ADI may apply concessional risk weightings for centrally cleared transactions, as prescribed by APS112, to eligible trade exposures that are cleared through ASX Clear or ASX Clear (Futures).

Each of ASX Clear and ASX Clear (Futures) has operating rules that give its Clearing Participants legal certainty that obligations under novated contracts may be terminated and netted in the event of the CCP’s insolvency. These rules are intended to satisfy preconditions under APS112 (and corresponding conditions under the bank prudential rules of other jurisdictions, based on the Basel III framework) for ADIs that are Clearing Participants, or have subsidiaries that are Clearing Participants, to calculate their capital requirements based on net (instead of gross) trade exposures to the CCP. ASX has obtained and makes available to its Clearing Participants Australian law legal opinions that, subject to the assumptions and qualifications in the opinions, confirm that, if ASX Clear or ASX Clear (Futures) was subject to an insolvency proceeding, close-out netting of obligations under novated contracts in accordance with the operating rules would be validated under Australian law.

## Operating rules

Each of the ASX Group’s CS facility licensees maintains operating rules for its facility. The operating rules govern matters including participation, capital requirements (where applicable), record keeping, margining and payments, trade capture and maintenance, (daily) settlement and default management. The Act provides that the operating rules of a licensed CS facility have effect as a contract under seal:

- ↗ between the licensee and each issuer of financial products in respect of which the facility provides its services;
- ↗ between the licensee and each participant in the facility;
- ↗ between each issuer of financial products in respect of which the facility provides its services and each participant in the facility; and
- ↗ between a participant in the facility and each other participant in the facility,

under which each of those persons agrees to observe the operating rules to the extent that they apply to the person and to engage in conduct that the person is required by the operating rules to engage in.

A comprehensive set of ASX’s Rules, Guidance Notes and Waivers can be found at the following link [www.asx.com.au/regulation/rules-guidance-notes-and-waivers.htm](http://www.asx.com.au/regulation/rules-guidance-notes-and-waivers.htm)

The operating rules and procedures which govern the operation of each CS facility and specifically the rights and obligations of Participants can be found at the following links:

- ↗ [ASX Clear](#), outlining the rights and obligations of Participants at Schedule 4;
- ↗ [ASX Clear \(Futures\)](#), with Participant obligations generally covered under the various sections of Part 2 of the Operating Rules;
- ↗ [ASX Settlement](#), outlining the rights and obligations of the FMI, Issuers and

Participants at Schedules 3, 5 and 6, respectively; and,

- ↗ [Austraclear](#), with the rights and obligations of Participants covered under Schedules 2, 3 and 4, and the rights and obligations of the FMI outlined at Schedule 6.

Further information regarding participant arrangements and requirements are included in A [Guide to Becoming an ASX Participant](#).

## Policies and procedures

ASX has implemented a number of policies and procedures to ensure it is able to achieve its commitment to conducting the company’s business ethically and in a way that is open and accountable to shareholders and the marketplace. Some of these policies include:

### ASX Fraud Control Policy

The ASX Fraud Control Policy outlines the principles and framework implemented to ensure ASX is able to minimise the risk of fraud occurring across the organisation and the framework was designed with reference to the Australian Standard AS 8000-2008: Fraud and Corruption Control.

### Code of Conduct

ASX has implemented a Code of Conduct, which has at its core, the commitment to conducting business in an open and accountable way. ASX strives to maintain a high standard of integrity, investor confidence and good corporate governance. The Code places obligations on ASX employees and expects certain standards to be maintained.

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## Anti-Money Laundering

ASX Group entities comply with the requirements of the Anti-Money Laundering and Counter-Terrorism Financing Act 2006 (Cth) to the extent that those requirements are applicable to group activities.

## Privacy

ASX Limited and its related bodies corporate are bound by the Australian Privacy Principles as set out in the Privacy Act 1988 (Commonwealth). The ASX Privacy Policy covers how and when Personal Information is collected, stored and distributed by the ASX Group.

## Other Policies

ASX has comprehensive policies in place to cover areas such as:

- Desktop Security
- Email Use
- Information Security
- Internet Usage
- Physical Security
- Workplace surveillance
- Whistleblower Protection
- ASX's conflict handling arrangements

These policies are reviewed regularly to ensure that they remain up to date and reflect current requirements.

## Industry Consultation and Discussion

ASX advocates regulatory settings that support investors and growth and which put in place controls that ensure Australia maintains world class financial market infrastructures.

ASX is actively engaged in a range of industry discussions and consultations relating to changes to its Operating Rules as well as shaping the regulatory landscape. For a list of public consultations, please refer to the [ASX website](#).

Specific examples of consultations include:

### T+2 settlement cycle

- In June 2014, the advisory forum (the Forum) established by ASX under its [Code of Practice](#) for Clearing and Settlement of Cash Equities, recommended that ASX transition from a T+3 to a T+2 settlement cycle for cash equities. This will reduce risk for participants and improve certainty for investors. ASX is targeting implementation in 2016.

### Recovery Powers of ASX's CCPs

- In early April 2015 ASX will issue for consultation an exposure draft of new rules for recovery. ASX is targeting implementation of new rules for recovery in mid-2015. The Australian Government has issued a consultation paper on proposals for a statutory resolution framework for FMIs. ASX supports early implementation of a resolution framework.

ASX has established a number of industry-represented fora which provide a platform for discussion of matters pertaining to industry interest and are aimed at facilitating service innovation and improving efficiency in ASX's markets and clearing and settlement facilities.

Specific examples of industry discussions include:

### Code of Practice Advisory Forum

Under the Code of Practice for Clearing and Settlement of Cash Equities in Australia, ASX established an advisory forum comprising senior representatives from ASX's clearing and settlement participants, and a wide range of other industry stakeholders that are users of ASX's clearing and settlement services. The Forum provides a mechanism for ASX to engage with users of clearing and settlement services to ensure that the ongoing development of cash market clearing and settlement infrastructure and services meet the needs of users and are aligned with global standards.

### ASX Clear (Futures) and ASX Clear Risk Consultative Committees

These Committees provide a forum for Clearing Participants to make certain proposals and recommendations to the Clearing Board, relating to various matters, including but not limited to the risk models of ASX Clear (Futures) and ASX Clear, changes to the CCPs' Operating Rules, introduction of new asset classes for clearing, changes to admission criteria and all other matters which may have an impact on the risk management of the CCPs and their Clearing Participants.

## Derivative Product Committees

These Committees allow major users of ASX's Interest Rate and OTC equity option and energy derivative products and services to provide input to ASX on existing and future product and service design, and to raise any customer or market issues impacting ASX derivative products.

### Austraclear Advisory Committee

This Committee was launched in March 2014 and meets quarterly. It enables major users of Austraclear to provide input into the design, operation and development of Austraclear and to the forward work program for Austraclear.

### System design and operations

ASX Operations Pty Limited ("ASX Operations") provides service arrangements across the ASX Group.

ASX operates four clearing systems:

- CHES (providing clearing, settlement, depository and registry services for ASX-listed securities);
- Derivatives Clearing System (used for clearing derivatives traded on ASX Trade);
- Genium INET (providing clearing processing for the derivatives traded on ASX Trade24); and,
- Calypso (providing clearing processes for over-the-counter interest rate derivative products).

Further information can be found in the [Overview of CHES brochure](#).

# Principles for Financial Market Infrastructures ("PFMI") Disclosure Framework

ASX employs two main settlement technologies:

- Exigo (providing settlement, depository and registry services for the Australian over-the-counter debt market, and facilitating the settlement of the Australian dollar leg of foreign exchange transactions); and,
- CHES (providing clearing, settlement, depository and registry services for ASX-listed securities).

Further information can be found at [How Settlement Works](#) and in the [Overview of CHES brochure](#).

## Technology Plans & Communication

ASX's business is highly reliant on the information technology platforms utilised to support its various activities. ASX's objective is to provide stable, reliable and innovative technology solutions that are quick to adapt to new and changing business requirements, while conforming to regulatory standards.

ASX makes significant technology investments by introducing new technology platforms and upgrading existing platforms. In the coming years, ASX plans to upgrade several core platforms for trading, clearing and settlement. This follows the recent investment in new post-trade infrastructure.

ASX has appropriate processes in place to release information technology system management plans to stakeholders (including issuers, investors, market participants, vendors, other market licensees and regulatory authorities). The plans clearly

identify mandatory versus optional changes and allow sufficient time for stakeholders to adapt to the changes.

ASX has been publishing its rolling 12 month plan for technology releases since April 2012. The release schedule is proactively monitored and updated as necessary. The most recent versions of notices sent to participants are located on the ASX Online website under 'ASX Notices'.

As part of its commitment to stakeholders, ASX takes into account the commercial, technological, supervisory and regulatory impact of the proposed changes to the systems and controls on those stakeholders. ASX also assesses stakeholder readiness to deal with the impact of the changes.

In May 2014, ASX advised customers of the use of Twitter in the event of an incident occurring that impacts the production environment for any of ASX's key systems, or is significant enough that all of the market and its users should be aware; in such cases, ASX will send (in addition to its existing forms of communication) a message/"tweet" which will include a link to the system status page on [asx.com.au](http://asx.com.au) where additional information, previous communications and a status of the incident can be viewed.

## Fees

A comprehensive list of fees and charges associated with utilising ASX's CS facilities can be found at the following links:

- ASX Clear and ASX Settlement: [Schedule of Fees](#), as well as details regarding ASX's

Cash Market Clearing and Settlement Revenue Sharing Schemes in [Participant Notice 2012/062](#) and [Participant Bulletin P2012/609](#);

- ASX Clear (Futures): [Schedule of Fees](#) (noting information relating to Rebates at Schedule 4). From 1 October 2014, ASX lowered fees and increased growth incentives for certain clearing participants in its interest rate futures and OTC clearing business, as set out in the [Market Notice](#) dated 24 July 2014;
- Austraclear: See the various fee schedules under [Schedule of Fees](#), noting the Fixed Income Securities Settlement Rebate details under Section 6; and,
- Connectivity costs for ASX technical services are set out in the [Schedule of Fees](#).

## FY15 Initiatives

In July 2014, ASX announced that it will reduce its fees and increase growth incentives for electricity futures, interest rate futures and OTC clearing. The new fees and growth incentives more closely align ASX with its customers and position the company to compete for global liquidity within an evolving market structure. These changes recognise that customers use exchange-traded and OTC interest rate products together, and signal the phase in the development of ASX's Derivative and OTC Markets business.

## IV. CPMI-IOSCO PFMI Disclosure

ASX recognises the important role of its CS facilities in maintaining systemic stability

in the Australian markets and supports the objectives of the PFMI established by CPMI-IOSCO.

ASX has an open dialogue with the RBA and ASIC to ensure compliance with the Australian regulatory regime.

Details of the way in which each of ASX's CS facilities meet applicable Principles for FMIs and the Australian FSS are set out at Appendix I.

## V. List of publicly available resources

A range of useful information regarding ASX Group's FMIs can be found at [www.asx.com.au](http://www.asx.com.au) and via the links included above.

# PFMI Disclosure Framework | Principle 1

## PRINCIPLE 1 – LEGAL BASIS

An FMI should have a well-founded, clear, transparent and enforceable legal basis for each material aspect of its activities in all relevant jurisdictions

### PFMI/FSS

A CCP should be a legal entity which is separate from other entities that may expose it to risks unrelated to those arising from its function as a CCP

FSS 1.1

### PFMI 1 – KEY CONSIDERATION 1

The legal basis should provide a high degree of certainty for each material aspect of an FMI's activities in all relevant jurisdictions

FSS 1.2

### HOW ASX CENTRAL COUNTERPARTIES COMPLY

#### ➤ The ASX Group operates two CCPs

- ASX Clear Pty Limited ABN 48 001 314 503, which operates the CS facility known as "ASX Clear"; and,
- ASX Clear (Futures) Pty Limited ABN 91 050 615 864, which operates the CS facility known as "ASX Clear (Futures)"

#### ➤ The CCPs are separate legal entities, incorporated in Australia

#### ➤ Neither of the CCPs is exposed to the risks associated with the other's CCP activities, or the activities of any other ASX Group entity, for example

- The two CCPs operate distinct and separate default funds
- There is no cross-guarantee arrangement in place between the CS facilities. In particular, none of the CS facilities is a party to the ASX Group's deed of cross-guarantee, which relates to ASIC's financial reporting requirements

#### ➤ The material aspects of the CCPs' activities, and their legal basis, are

- Licensing. The primary activity of the CCPs is the provision of clearing services to their participants. Each of the CCPs holds a CS facility licence (under Part 7.3 of the Corporations Act), which provides the legal basis for these services. The relevant licences can be found on [ASIC's website](#)
- Legally binding nature of the CCPs' operating rules. Section 822B of the Corporations Act provides that the operating rules of each of the CCPs have effect as a contract under seal between:
  - » the CCP and each issuer,
  - » the CCP and each participant,
  - » each issuer and each participant, and
  - » each participant and each other participant
 The operating rules therefore comprise a statutory contract
- Payment Systems and Netting Act (PSNA). In the event that a participant in the CS facility enters into external administration, the PSNA provides certain protections under Australian law, from reversal or invalidation under the laws of any jurisdiction, of termination, netting and settlement of obligations, and enforcement of security effected in accordance with the operating rules of ASX's CS facilities, as follows:

## PFMI 1 – KEY CONSIDERATION 2

An FMI should have rules, procedures and contracts that are clear, understandable and consistent with relevant laws and regulations

FSS 1.3

- » Part 2 protects real time gross settlements effected through an approved RTGS system (each of Austraclear and ASX Settlement has this approval; the Reserve Bank Information and Transfer System (RITS), in relation to which Austraclear and ASX Settlement are “feeder systems”, is also an approved RTGS system);
- » Part 3 protects net settlements effected through an approved netting arrangement (each of Austraclear and ASX Settlement has this approval); and
- » Part 5 protects the termination, valuation and netting of obligations, and enforcement of security, by a CCP that operates an approved “netting market” (each of ASX Clear and ASX Clear (Futures) has this approval). Part 5 also protects the porting of client positions and collateral by the CCP in the event that a Clearing Participant defaults

➤ **The legal bases outlined above apply irrespective of the jurisdiction in which a participant in the CCP may be incorporated**

### ➤ Rules, procedures and contracts in place

- Rules and procedures. Each CCP has its own set of operating rules and procedures which govern the operation of its CS facility
- Contracts. Under an ASX Group intra-group services agreement, ASX Operations Pty Limited (a wholly owned subsidiary of ASX Limited) acts as the group's operating company, entering into contracts on behalf of the ASX Group and its subsidiaries, and then 'on-supplying' the services to the relevant ASX Group entity

### ➤ Processes in place to ensure that the rules, procedures and contracts are clear and understandable

- Quality control measures are in place for all amendments to the CCPs' operating rules and procedures. Such measures include those which are internal to ASX:
  - » management oversight of the drafting of the amendments,
  - » General Manager sign-off for all amendments,
 and those which are controlled by ASIC and RBA, namely the regulatory clearance process for amendments to the operating rules, under Part 7.3 of the Corporations Act (Division 2, Subdivision B)

### ➤ Processes in place to ensure that the rules, procedures and contracts are consistent with relevant laws and regulations

- ASX conducts a continuous internal review of amendments to (or introduction of) laws and regulations that affect the CCPs' operations, and works with ASIC and RBA as appropriate to amend its operating rules, procedures and contracts to ensure ongoing consistency with the law
- ASIC and RBA conduct annual assessments of ASX Group's compliance with licence obligations, which provides further oversight of the FMIs' consistency with the relevant laws and regulations



# PFMI Disclosure Framework | Principle 1

## PFMI/FSS

### PFMI 1 – KEY CONSIDERATION 3

An FMI should be able to articulate the legal basis for its activities to relevant authorities, participants and, where relevant, participants' customers, in a clear and understandable way

FSS 1.4

### PFMI 1 – KEY CONSIDERATION 4

An FMI should have rules, procedures and contracts that are enforceable in all jurisdictions.

There should be a high degree of certainty that actions taken by the FMI under such rules and procedures will not be voided, reversed or subject to stays

FSS 1.5

### PFMI 1 – KEY CONSIDERATION 5

An FMI conducting business in multiple jurisdictions should identify and mitigate the risks arising from any potential conflicts of law across jurisdictions

FSS 1.6

## HOW ASX CENTRAL COUNTERPARTIES COMPLY

### ➤ How the CCPs articulate the legal basis for their activities to stakeholders

- The legal basis for the activities of the CCPs and the facilities' protection as approved "netting markets" under the PSNA are set out on ASX's public website in this Disclosure Framework document
- ASX Limited (on behalf of each licensed entity within the ASX Group, including the CCPs) submits an 'Annual Group Licence Report' to ASIC. This report sets out the legal basis for the CCPs' activities (namely the licence obligations), and is used by ASIC in the preparation of ASIC's 'market assessment reports' which are published on ASIC's website
- Where appropriate, ASX commissions and makes available to participants and/or clients of participants, on a confidential basis, external legal opinions to (1) confirm the legal efficacy of operating rules that are introduced to support new ASX services or meet regulatory requirements that apply to ASX or its participants, or (2) confirm the impact of new ASX services on participants' existing contractual arrangements

### ➤ Rules and Procedures. Section 822B of the Corporations Act provides that the operating rules of each CCP have effect as a contract under seal between the CCP, participants and issuers. The operating rules are enforceable as a statutory contract

### ➤ Contracts. The contracts entered into by the CCPs and third parties are enforceable under Australian contract law

### ➤ Actions taken by a CCP under its operating rules

- The status of actions taken by a CCP which has entered into external administration is expected to be addressed by the introduction into Australian law of a statutory management regime for financial market infrastructure, as foreshadowed in consultations undertaken by the Council of Financial Regulators and Treasury in 2011, 2012 and 2015
- The status of actions taken by a CCP under Australian law where one of its participants defaults and enters into administration is addressed by the PSNA, which, as noted above, provides certain protections under Australian law from reversal or invalidation under the laws of any jurisdiction, of termination, netting and settlement of obligations, and enforcement of security effected in accordance with an FMI's operating rules

### ➤ The operating rules of the CCPs are governed by Australian law and participants submit to the jurisdiction of the courts of New South Wales. Accordingly, Australia is the relevant jurisdiction for enforcement of the rules

### ➤ The legal bases outlined above apply irrespective of the jurisdiction in which a participant in the CCP may be incorporated

### ➤ Neither of the CCPs is licensed to provide clearing services in any jurisdiction outside of Australia. Recognitions have been sought in other jurisdictions, for the purpose of enabling overseas participants to participate in ASX's markets, or in the clearing facilities operated by the CCPs, as necessary

## PFMI Disclosure Framework | Principle 2

### PRINCIPLE 2 – GOVERNANCE

An FMI should have governance arrangements that are clear and transparent, promote the safety and efficiency of the FMI, and support the stability of the broader financial system, other relevant public interest considerations and the objectives of relevant stakeholders

#### PFMI/FSS

##### PFMI 2 – KEY CONSIDERATION 1

An FMI should have objectives that place a high priority on the safety and efficiency of the FMI and explicitly support financial stability and other relevant public interest considerations.

*FSS 2.1*

##### PFMI 2 – KEY CONSIDERATION 2

An FMI should have documented governance arrangements that provide clear and direct lines of responsibility and accountability. These arrangements should be disclosed to owners, relevant authorities, participants and, at a more general level, the public.

*FSS 2.2*

#### HOW ASX CENTRAL COUNTERPARTIES COMPLY

- These obligations are addressed in the ASX Limited Board Charter and the CS Boards Charter. These are published on the ASX website
  - The ASX Limited Board Charter sets out the functions of the Board, which include, but are not limited to, responsibility to oversee the conduct of the affairs of the ASX Group consistent with licence obligations as well as public policy objectives directed at financial market and payment systems integrity
  - The CS Boards Charter sets out the responsibilities of the CS Boards, which include, but are not limited to, reviewing and providing oversight of risk management processes, internal controls and compliance systems in respect of the management of clearing and settlement risks and compliance with the Financial Stability Standards. The CS Boards Charter also refers to the statutory obligations of the CS Boards under the Corporations Act, which also include, but are not limited to, doing all other things necessary to reduce systemic risk, providing the facility's services in a fair and effective way and having adequate conflict handling and compliance arrangements
- 
- Governance arrangements are documented in the CS Boards Charter, ASX Limited Board Charter & Committee Charters, and the ASX Compliance Charter. These are published on the ASX website
  - The ASX Limited Board Charter sets out how it relies on the CS Boards to oversee the clearing and settlement operations of the CS entities
  - The CS Boards Charter sets out the clearing and settlement executive management structure and reporting lines, ownership structure, design and oversight of risk management and internal controls
  - The Remuneration Committee Charter sets out the Committee's role overseeing executive remuneration and performance management processes. The CS Boards review the performance of the Chief Risk Officer (CRO) and executive management responsible for settlement risk (Group Executive, Operations) and advise the Remuneration Committee of the outcomes
  - The Managing Director & Chief Executive Officer (CEO) is responsible for the appointment and termination of both of these roles following consultation with the ASX Limited Board and with the agreement of the CS Boards
  - The Nomination Committee Charter sets out the Committee's role in reviewing nomination matters relating to the composition and performance of the CS Boards
  - The ASX Compliance Charter sets out the powers delegated to ASX Compliance by the CS Boards to perform compliance and enforcement services
  - The CS Boards Charter sets out that both the General Manager Regulatory Assurance and General Manager Internal Audit have a direct line of reporting to the CS Boards, with periodic reporting provided

# PFMI Disclosure Framework | Principle 2

## PFMI/FSS

## HOW ASX CENTRAL COUNTERPARTIES COMPLY

### PFMI 2 – KEY CONSIDERATION 3

The roles and responsibilities of an FMI's board of directors (or equivalent) should be clearly specified, and there should be documented procedures for its functioning, including procedures to identify, address and manage member conflicts of interest. The board should review both its overall performance and the performance of its individual board members regularly

FSS 2.3

### PFMI 2 – KEY CONSIDERATION 4

The board should contain suitable members with the appropriate skills and incentives to fulfil its multiple roles. This typically requires the inclusion of non-executive board member(s)

FSS 2.4

- The CS Boards and ASX Limited Board Committees report regularly to the ASX Limited Board and to each other on relevant matters. Minutes of their meetings are made available to the ASX Limited Board, except where the CS Boards consider commercially sensitive information. This would usually arise in a situation where another market operator or listing venue is obtaining services from, or access to, the CS facility. In those cases, no directors who are also on the ASX Limited Board attend the CS Boards meeting and neither the matter discussed nor the minutes of the CS Boards meeting are reported to the ASX Limited Board
- Board roles and responsibilities are set out in the CS Boards Charter, ASX Limited Board Charter & Committee Charters. Board responsibility for effective monitoring of senior management is addressed in the CS Boards Charter and the Remuneration Committee Charter
- Board responsibility for nomination matters is addressed in the CS Boards Charter and the Nomination Committee Charter. Members of ASX Limited's Nomination Committee (from time to time) are appointed to review nomination matters with reporting to the CS Boards
- Board responsibility for risk management and internal control is addressed in the CS Boards Charter and the Audit & Risk Committee (ARC) Charter
- Board responsibility for ensuring compliance with all supervisory and oversight requirements, ensuring consideration of financial stability and other relevant public interests is addressed by the CS Boards and ASX Compliance
- Board responsibility for providing accountability to owners, participants and other relevant stakeholders is addressed through reporting to the ASX Limited Board, consultation with relevant stakeholders and publication of governance arrangements
- Board performance reviews are addressed in the CS Boards Charter
- Conflicts handling is addressed in the CS Boards Charter and ASX's Conflict Handling Arrangements, a copy of which is published on the ASX website and meets FSS requirements. These include the additional management protocols in place to manage conflict sensitive information
- These obligations are addressed in the CS Boards Charter and the Nomination and Remuneration Committee Charters
- The Nomination Committee Charter sets out that the Committee periodically reviews the composition, skills and experience of the CS Boards. Director appointments to the CS Boards are made by the respective CS Board
- All CS Board directors, other than the CEO, are independent non-executives
- The Remuneration Committee Charter sets out that the Committee periodically reviews compensation for CS Board directors. CS Board directors do not receive any performance-related compensation
- Director information, including directors' interests, ASX Group cross-directorships and independence is published on the ASX website

## PFMI Disclosure Framework | Principle 2

PFMI/FSS

### PFMI 2 – KEY CONSIDERATION 5

The roles and responsibilities of management should be clearly specified. An FMI's management should have the appropriate experience, a mix of skills, and the integrity necessary to discharge their responsibilities for the operation and risk management of the FMI

FSS 2.5

### PFMI 2 – KEY CONSIDERATION 6

The board should establish a clear, documented risk management framework that includes the FMI's risk-tolerance policy, assigns responsibilities and accountability for risk decisions, and addresses decision making in crises and emergencies. Governance arrangements should ensure that the risk management and internal control functions have sufficient authority, independence, resources and access to the board

FSS 2.6

HOW ASX CENTRAL COUNTERPARTIES COMPLY

- Director independence is reviewed annually. The CS Boards have adopted the ASX Limited Board Policy and Guideline to Relationships Affecting Independent Status, which sets out the matters which will be considered when assessing director independence. This policy is published on ASX's website
- Directors' interests are tabled at each Board meeting
- No tenure limit in CS Boards Charter
- The roles and responsibilities of senior management relevant to CS operations are set out in the CS Boards Charter and more fully in defined position descriptions
- The CEO has responsibility for the overall operational and business management and profit performance of ASX. The CRO and Group Executive, Operations report to the CEO
- The CRO has responsibility for the overall clearing risk management of the CS subsidiaries and for ensuring the CS license obligations are met
- The Group Executive, Operations has responsibility for the overall settlement risk management of the CS subsidiaries
- The CS Boards Charter sets out that the CS Boards appoint members of the Remuneration Committee (from time to time) to review compensation arrangements for the CRO and Group Executive, Operations. The CS Boards provide input to the Remuneration Committee as part of the annual performance management process. The Remuneration Committee also reviews compensation arrangements for the CRO and Group Executive, Operations to confirm these are structured in such a way as to promote the soundness and effectiveness of risk management. Reporting is provided to the CS Boards
- Executive KPIs are structured to promote soundness and effectiveness of risk management
- These obligations are addressed in the CS Boards Charter, ARC Charter, Internal Audit Charter, and the ASX Enterprise Risk Management Policy and Framework. Further details are provided under Principle 3; Key Consideration 1
- The CS Boards are responsible for oversight of risk management relevant to the CS Boards, and the ARC is responsible for oversight of enterprise wide risk. The CS Boards appoint members of the ARC (from time to time) to review matters that the ARC is responsible for, which may impact on CS operations. Reporting is provided to the CS Boards
- ASX has established an independent ASX Clear (Futures) Risk Consultative Committee and an independent ASX Clear Risk Consultative Committee which will first meet in Q1 2015. The Risk Consultative Committees will have a broad mandate to consider and make recommendations to the Boards of the FMIs on matters related to their risk management
- Each of the CRO, Group Executive, Operations, GM, Regulatory Assurance & GM, Internal Audit have a direct line of reporting to the CS Boards. These are documented in their employment agreements or position descriptions
- The Internal Audit Charter addresses the independence of Internal Audit. The Internal Audit Plan is approved by the ARC, and by the CS Boards for matters relevant to the CS subsidiaries

## PFMI Disclosure Framework | Principle 2

### PFMI/FSS

A CCP's operations, risk management processes, internal control mechanisms and accounts should be subject to internal audit and, where appropriate, periodic external independent expert review. Internal audits should be performed, at a minimum, on an annual basis. The outcome of internal audits and external reviews should be notified to the Reserve Bank and other relevant authorities

FSS 2.7

### PFMI 2 – KEY CONSIDERATION 7

The board should ensure that the FMI's design, rules, overall strategy and major decisions reflect appropriately the legitimate interests of its direct and indirect participants and other relevant stakeholders. Major decisions should be clearly disclosed to relevant stakeholders and, where there is a broad market impact, the public

FSS 2.8

### HOW ASX CENTRAL COUNTERPARTIES COMPLY

- These obligations are addressed in the CS Boards Charter, ARC Charter and Internal Audit Charter
  - The CS Boards are responsible for oversight of risk management (including internal controls and Internal Audit matters) relevant to the CS Boards and the ARC is responsible for oversight of enterprise wide risk. The CS Boards appoint members of the ARC (from time to time) to review matters that the ARC is responsible for, which may impact on CS operations
  - The Internal Audit Charter sets out that the principal objective of Internal Audit is to provide independent, objective assurance and consulting services to add value and improve the operations of ASX
  - The Internal Audit Plan is approved by the ARC, and by the CS Boards for matters relevant to the CS subsidiaries
  - The ARC assesses the independence and performance of Internal Audit annually. The external auditor has access to the work of the internal audit department. An external assessment of the internal audit department is performed periodically
  - Each of the CRO, Group Executive, Operations, GM, Regulatory Assurance and GM, Internal Audit have a direct line of reporting to the CS Boards on relevant matters. These are documented in their employment agreements or position descriptions
- 
- Stakeholder management is addressed within the ASX Limited Board, CS Boards and Customer Charters
  - ASX's Customer Charter sets out how ASX will balance the interests of customers, shareholders, end investors and the broader financial markets. ASX regularly seeks feedback from participants and stakeholders, including through consultation and stakeholder committees
  - Consultation processes include operational arrangements, risk controls and default management rules and procedures. Details of all public consultation and non-confidential submissions received are published on the ASX website
  - Outsourcing clauses in intra-group outsourcing arrangements address conflicts of interest, including specifying that ASX Group staff are under a duty to act in the best interests of the SSF receiving the services
  - The Forum is an advisory body established under the Code of Practice comprising senior representatives from ASX's clearing and settlement participants, and a wide range of other industry stakeholders. The Forum provides a mechanism for ASX to engage with users of clearing and settlement services to ensure that the ongoing development of cash market clearing and settlement infrastructure and services meet the needs of users and are aligned with global standards. A Business Committee to provide business and operational input into the Forum on its forward work program was also established under the Code. Further detail about the Code, Forum and Business Committee is published on ASX's website
  - The ASX Clear (Futures) Risk Consultative Committee provides a forum for clearing participants to review and make recommendations relating to various matters, including but not limited to the risk model of ASX Clear (Futures), changes to the CCP's Operating Rules, introduction of new asset classes for clearing, changes to admission criteria and all other matters which may have an impact on the risk management of the CCP and its Clearing Participants



A CCP that is part of a group of companies should ensure that measures are in place such that decisions taken in accordance with its obligations as a CCP cannot be compromised by the group structure or by board members also being members of the board of other entities in the same group. In particular, such a CCP should consider specific procedures for preventing and managing conflicts of interest, including with respect to intragroup outsourcing arrangements

FSS 2.9

- ASX Clear has also established a Risk Consultative Committee which will first meet in Q1 2015
- The Derivative Product Committees allow major users of ASX's Interest Rate and OTC equity option and energy derivative products and services to provide input to ASX on existing and future product and service design, and to raise any customer or market issues impacting ASX derivative products. ASX Clear (Futures) has also established a Default Management Group (DMG) to provide OTC participant feedback on aspects of the default management process
- Conflict handling is specifically addressed in the CS Charter and ASX's Group Conflict Handling Arrangements. Enhancements have been made to address being part of a corporate group. These documents are published on the ASX website
- Director information, including directors' interests, ASX Group cross-directorships and independence, is published on the ASX website
- Directors' interests are tabled at each Board meeting
- Outsourcing clauses in intra-group outsourcing arrangements address conflicts of interest, including specifying that ASX Group staff are under a duty to act in the best interests of the CCP receiving the services
- ASX Clear and ASX Settlement Boards periodically meet separately from the other CS Boards. ASX Clear and ASX Settlement provide clearing and settlement arrangements to competing listing or trading venues. These are often referred to as "access arrangements". Transparent and non-discriminatory access arrangements have been approved for competing market operators or listing venues. The Boards of ASX Clear and ASX Settlement are made up of 6 directors, the only executive director is the ASX CEO and Managing Director. Three of the five non-executive directors of ASX Clear and ASX Settlement, including the Chair, are not directors on the ASX Limited Board which competes with these venues. Two of these three directors are able to form a quorum to meet and consider any commercially sensitive matters. The three non-ASX Limited directors meet regularly
- Each other CS Board is also constituted such that directors who are not on the ASX Limited Board can form a quorum and meet if required. This would usually arise if one of the CS Boards was required to consider commercially sensitive information where another market operator or listing venue is obtaining services from, or access to, the CS facility. In those cases, no directors who are also on the ASX Limited Board attend the CS Boards meeting and neither the matter discussed nor the minutes of the CS Boards meeting are reported to the ASX Limited Board

## PFMI Disclosure Framework | Principle 3

### PRINCIPLE 3 – FRAMEWORK FOR THE COMPREHENSIVE MANAGEMENT OF RISKS

An FMI should have a sound risk management framework for comprehensively managing legal, credit, liquidity, operational and other risks

#### PFMI/FSS

#### PFMI 3 – KEY CONSIDERATION 1

An FMI should have risk management policies, procedures and systems that enable it to identify, measure, monitor and manage the range of risks that arise in or are borne by the FMI. Risk management frameworks should be subject to periodic review

FSS 3.1

#### HOW ASX CENTRAL COUNTERPARTIES COMPLY

- The ASX Enterprise Risk Management (ERM) Policy and Framework is based on the International Standard (ISO 31000) for risk management and approved by the Enterprise Risk Management Committee (ERMC). The 'Summary of Risk Management Policies' is on the ASX website
- The CCPs have identified the range of risks that arise from their activities and considered them in the standardised risk categories, being: Strategic, Financial, Legal & Regulatory and Technology & Operations
- Clearing Risk Strategy and Policy develops clearing risk specific policies, procedures and analysis. Policies are reviewed and approved by the CS Boards. Policies are subject to annual review
- Clearing Risk Management (CRM) has systems and reports which identify key risk indicators, including
  - Margins (both overnight and intraday);
  - Capital Stress Testing (Capital adequacy);
  - Liquidity Stress Testing;
  - Clearing Participant – Capital Based Position Limits (CBPL);
  - Treasury Investment monitoring;
  - Commitment Calculations / Emergency Assessments;
  - Market movement / Market erosion;
  - Collateral Management;
  - Counterparty Risk Assessment (Capital monitoring);
  - Back Testing;
  - Reverse Stress testing; and,
  - Margin rate setting.
- Clearing Risk Management provides various reports to Clearing Participants covering:
  - Cash Market Margining (ASX Clear);
  - Derivatives Margins and Collateral (ASX Clear); and,
  - Derivatives Margins and Collateral (ASX Clear (Futures))

## PFMI Disclosure Framework | Principle 3

### PFMI/FSS

A CCP should ensure that financial and other obligations imposed on participants under its risk management framework are proportional to the scale and nature of individual participant's activities

FSS 3.2

#### PFMI 3 – KEY CONSIDERATION 2

An FMI should provide incentives to participants and, where relevant, their customers to manage and contain the risks they pose to the FMI

FSS 3.3

### HOW ASX CENTRAL COUNTERPARTIES COMPLY

- Clearing Risk Management provides summaries of certain risk indicators (together with any breaches of the above risk indicators) to various governing committees, including:
  - Clearing and Settlement Boards
  - Clearing Risk Policy Committee
  - Risk Quantification Group
  - Capital and Liquidity Committee
  - CCP Risk, Operations and Compliance Committee
  - Default Management Steering Group
- Internal Audit includes CCP activities in its risk based audit plan. The Internal Audit Charter is on the ASX website
- The CCPs' contribution, commitment and margining regimes are aligned to scale and nature of participant risk exposures and activities. For example, margin and contribution requirements vary in size depending on relevant risk exposure or size of the participant's clearing activities
- The CCPs' Operating Rules are designed and implemented in a way to recognise the criticality of the individual participant's activities. The CCPs' Operating Rules are on the ASX website
- Incentives for participants to manage their risks are made via capital requirements, margin requirements, etc
- Penalties for non-compliance with CCP operating rules may be applied
- Participants may be required to seek alternative clearing arrangements if they are unable to manage their risks to a level acceptable to ASX's CCPs. The CCPs' Operating Rules are on the ASX website
- Comprehensive information is provided to CCP participants to allow them to manage their risks and include daily gross and net risk positions, and margin requirements

# PFMI Disclosure Framework | Principle 3

## PFMI/FSS

### PFMI 3 – KEY CONSIDERATION 3

An FMI should regularly review the material risks it bears from and poses to other entities (such as other FMIs, settlement banks, liquidity providers and service providers) as a result of interdependencies, and develop appropriate risk management tools to address these risks

FSS 3.4

### PFMI 3 – KEY CONSIDERATION 4

FMI should identify scenarios that may potentially prevent it from being able to provide its critical operations and services as a going concern and assess the effectiveness of a full range of options for recovery or orderly wind-down. An FMI should prepare appropriate plans for its recovery or orderly wind-down based on the results of that assessment. Where applicable, an FMI should also provide relevant authorities with the information needed for purposes of resolution planning

FSS 3.5

## HOW ASX CENTRAL COUNTERPARTIES COMPLY

- Risk profiling is undertaken every six months which includes risks posed by external entities to the CCPs
  - Major loss scenario analysis is undertaken periodically
  - ASX has engaged with ASIC to better communicate to clearing participants and their customers the risks associated with clearing arrangements
- 
- The CCPs have developed recovery plans based on existing powers under their operating rules. ASX has commenced work to develop a more comprehensive recovery plan supported by tools to fully address uncovered credit losses and liquidity shortfalls, and replenish financial resources. ASX's proposed recovery approach is consistent with CPMI-IOSCO guidance on FMI recovery planning released in October 2014. ASX undertook public consultation on its proposed recovery approach for participant default in October 2014. Following consideration of the responses to consultation, ASX expects to consult on amendments to the operating rules of the ASX CCPs to implement new recovery tools in early Q2 2015 with a view to implementation of the new rules by mid-2015, and subsequent updating of the recovery plans to reflect the new rules

## PFMI Disclosure Framework | Principle 4

### PRINCIPLE 4 – CREDIT RISK:

An FMI should effectively measure, monitor and manage its credit exposures to participants and those arising from its payment, clearing and settlement processes. An FMI should maintain sufficient financial resources to cover its credit exposure to each participant fully with a high degree of confidence. In addition, a CCP that is involved in activities with a more complex risk profile or that is systemically important in multiple jurisdictions should maintain additional financial resources sufficient to cover a wide range of potential stress scenarios that should include, but not be limited to, the default of the two participants and their affiliates that would potentially cause the largest aggregate credit exposure to the CCP in extreme but plausible market conditions. All other CCPs should maintain additional financial resources sufficient to cover a wide range of potential stress scenarios that should include, but not be limited to, the default of the participant and its affiliates that would potentially cause the largest aggregate credit exposure to the CCP in extreme but plausible market conditions

#### PFMI/FSS

##### PFMI 4 – KEY CONSIDERATION 1

An FMI should establish a robust framework to manage its credit exposures to its participants and the credit risks arising from its payment, clearing and settlement processes. Credit exposures may arise from current exposures, potential future exposures, or both

FSS 4.1

##### PFMI 4 – KEY CONSIDERATION 2

An FMI should identify sources of credit risk, routinely measure and monitor credit exposures, and use appropriate risk management tools to control these risks

FSS 4.2

#### HOW ASX CENTRAL COUNTERPARTIES COMPLY

- The CCPs have a robust risk framework to manage their credit risks outlined in their Operating Rules and Procedures, which include, at a high level
    - Clearing Participant membership requirements
    - Daily counterparty risk controls
    - CCP financial resources
- 
- The CCPs' Operating Rules and Procedures detail the CCPs' credit risks and provide the CCPs with processes to control and manage these risks
  - The CCPs have the ability, through their robust models and systems, to calculate and monitor participants' credit standing and credit exposures to participants. Types of activity undertaken by ASX's Clearing Risk Management (CRM) include:
    - Ensure the CCPs accurately calculate initial and variation margin requirements at the end of each business day;
    - Monitor day-to-day developments in market price moves, open positions and settlement obligations to the CCPs;
    - Initiate intraday margining processes and manage credit risk exposures on a timely basis;
    - Conduct daily capital stress testing to monitor the effects of extreme but plausible scenarios on participants' portfolios and call AIMs when stress-test results are above a defined limit;
    - Monitor, assess and investigate matters relating to financial requirements (including participants' monthly financial statements);
    - Determine and review participants' credit standing, drawing in part on information provided by participants in regular financial returns to ASX;



A CCP should have the authority to impose activity restrictions or additional credit risk controls on a participant in situations where the CCP determines that the participant's credit standing may be in doubt

FSS 4.3

- When required, coordinate a 'watch list' of participants deemed to warrant more intensive monitoring. Inclusion on the watch list is based on a range of factors, such as: concentration risk; concerns emerging from a specific event or media report; significant changes in a participant's own share price, bond yield or credit default swap price; Internal Credit Rating (ICR) downgrades; calls for Additional Initial Margin (AIM); operational issues; compliance issues; or issues arising from ASX's routine review of financial returns; and,
- Review of concentration risk in three areas:
  - » Concentrations in participants' exposures to their clients;
  - » Concentrations of individual participants' positions in particular products; and,
  - » Concentration of positions in a market by a single participant

- **Under the CCPs' Operating Rules and Procedures, the CCPs have the ability to impose restrictions on their Clearing Participants' activities and to impose additional credit risk controls where it deems a Clearing Participant's credit standing is in doubt. Types of restrictions available to the CCPs include imposing higher capital requirements, additional capital reporting requirements, or reduce Stress Test Exposure Limit levels**
- **In addition to routine calling of Initial Margins, CCPs may also require Clearing Participants to lodge Additional Initial Margins (AIMs) as follows:**
  - Intra-day Margins – during periods of market volatility, CCPs may impose an intra-day margin to address any significant erosion of existing margin collateral against current position exposures and current prices, as monitored in real-time. This effectively enables the CCPs to bring forward the daily settlement process which substantially reduces the CCPs' contingent exposure to unrealised participant losses. The CCPs make ad hoc margin calls at any point during the settlement hours, subject to banking system availability
  - Additional Initial Margins – ASX's CCPs may also require Clearing Participants to deposit AIMs when their relevant position is in excess of, or is likely to exceed, various risk thresholds such as Stress Test Exposure or Capital Based Position Limits
    - » AIMs relating to stress test exposure provide the CCPs with additional protection against potential losses in all but the most extreme market conditions. They are calculated on a daily basis and levied (as required) upon Clearing Participants in respect of the calculated exposure of their overall net position portfolio relative to their financial capacity and standing
    - » The CCPs' Capital Based Position Limits are designed to prevent a Clearing Participant from taking excessive risk relative to its capital, and thereby disproportionately increasing a CCP's risk to its default relative to other Clearing Participants. Where a Clearing Participant's initial margin exceeds twice its NTA on ASX Clear (Futures), or three times liquid capital (or Tier 1 capital for banks) on ASX Clear, the CCP requires AIMs from the Clearing Participant, the amount called to ensure its risk is adequately supported by its capital

# PFMI Disclosure Framework | Principle 4

## PFMI/FSS

### PFMI 4 – KEY CONSIDERATION 3

*NO CORRESPONDING FSS*

### PFMI 4 – KEY CONSIDERATION 4

A CCP should cover its current and potential future exposures to each participant fully with a high degree of confidence using margin and other prefunded financial resources.

In addition, a CCP that is involved in activities with a more complex risk profile or that is systemically important in multiple jurisdictions should maintain additional financial resources to cover a wide range of potential stress scenarios that should include, but not be limited to, the default of the two participants and their affiliates that would potentially cause the largest aggregate credit exposure for the CCP in extreme but plausible market conditions.

All other CCPs should maintain additional financial resources sufficient to cover a wide range of potential stress scenarios that should include, but not be limited to, the default of the participant and its affiliates that would potentially cause the largest aggregate credit exposure for the CCP in extreme but plausible market conditions.

In all cases, a CCP should document its supporting rationale for, and should have appropriate governance arrangements relating to, the amount of total financial resources it maintains

*FSS 4.4*

## HOW ASX CENTRAL COUNTERPARTIES COMPLY

- Extra Margins – ASX Clear (Futures) may also require Clearing Participants to deposit extra margins in relation to large open positions or price movements
- ASX Clear has powers under its Operating Rules to require additional margins from its Clearing Participants. In practice, these powers would be used to protect ASX Clear where it believes that the Clearing Participant's counterparty standing or open positions requires further risk mitigation
- Applicable to SSFs only
- As set out in the Supplementary Interpretation of the Financial Stability Standards for Central Counterparties (issued 27 October 2014) the RBA considers both of ASX's CCPs to be of systemic importance in multiple jurisdictions.
- As a result of this Supplementary Interpretation, each CCP is required to maintain financial resources to cover the default of the two largest participants and their affiliates (by credit exposure) in extreme but plausible market conditions.
- ASX Clear (Futures) currently maintains sufficient financial resources to cover the credit exposure in the event of a default of the two Clearing Participants and their affiliates that generate the largest aggregate credit exposure in extreme but plausible market conditions with a high degree of confidence
- ASX Clear will move from its current "Cover 1" standard to the higher "Cover 2" standard at the end of Q1 2015, and, as a result, will maintain sufficient financial resources to cover the credit exposure in the event of a default of the two Clearing Participants and their affiliates that generate the largest aggregate credit exposure in extreme but plausible market conditions with a high degree of confidence. ASX Clear currently has sufficient financial resources to meet the requirement of the higher "Cover 2" capital standard
- The CCPs' Operating Rules and Procedures provide the CCPs with powers to ensure that the CCPs cover current and potential future exposures to Clearing Participants with a high degree of confidence using margin and other prefunded financial resources
- The CCPs' Operating Rules and Procedures detail the prefunded financial resources and the order in which these are applied in a default
- The CCPs stress test these financial resources on a daily basis to ensure they are adequate to manage the default of the largest/ two largest (as applicable) Clearing Participant(s) and its/ their affiliates

# PFMI Disclosure Framework | Principle 4

## PFMI/FSS

### PFMI 4 – KEY CONSIDERATION 5

A CCP should determine the amount and regularly test the sufficiency of its total financial resources available in the event of a default or multiple defaults in extreme but plausible market conditions through rigorous stress testing. A CCP should have clear procedures to report the results of its stress tests to appropriate decision makers at the CCP and to use these results to evaluate the adequacy of and adjust its total financial resources. Stress tests should be performed daily using standard and predetermined parameters and assumptions.

On at least a monthly basis, a CCP should perform a comprehensive and thorough analysis of stress-testing scenarios, models and underlying parameters and assumptions used to ensure they are appropriate for determining the CCP's required level of default protection in light of current and evolving market conditions.

A CCP should perform this analysis of stress testing more frequently when the products cleared or markets served display high volatility, become less liquid, or when the size or concentration of positions held by a CCP's participants increases significantly.

A full validation of a CCP's risk management model should be performed at least annually

FSS 4.5

## HOW ASX CENTRAL COUNTERPARTIES COMPLY

- Further details of the risk mitigation techniques available to the CCPs to help manage Clearing Participant default are set out on the ASX website at [www.asx.com.au/services/clearing/default-management.htm](http://www.asx.com.au/services/clearing/default-management.htm)
- Both CCPs conduct rigorous stress testing to ensure that sufficient total financial resources are available in the event of the default of the largest/ two largest Clearing Participant(s) and its/ their affiliates, for ASX Clear and ASX Clear (Futures) respectively. Stress testing results are regularly reported to the RBA
- Both CCPs use standard and predetermined parameters and assumptions in their capital and liquidity stress testing
- The CCPs' Operating Rules and Procedures give the CCPs the power to adjust the stress testing methodology to account for any structural changes in the markets they clear, or to capture significant position concentrations on CCP capital (e.g. the rebound regime scenario)
- Model validation is in line with the CCPs' Model Validation Standard, which defines validation and reporting methods of model reviews. Model validation is performed on a regular basis in compliance with the RBA's FSS requirement for independent and comprehensive model reviews. Summary reports relating to back-testing and sensitivity analysis are also provided to the RBA on a monthly basis and the Clearing Boards on a quarterly or ad-hoc basis, dependent on the introduction of a new model or a material model development

## PFMI 4 – KEY CONSIDERATION 6

In conducting stress testing, a CCP should consider the effect of a wide range of relevant stress scenarios in terms of both defaulters' positions and possible price changes in liquidation periods.

Scenarios should include relevant peak historic price volatilities, shifts in other market factors such as price determinants and yield curves, multiple defaults over various time horizons, simultaneous pressures in funding and asset markets, and a spectrum of forward-looking stress scenarios in a variety of extreme but plausible market conditions.

FSS 4.6

- ASX Clear's stress testing is based on 102 scenarios, each calibrated to a once in 30 year event and based on a sample distribution constructed from 20 years of price and volatility data. These scenarios have been set to model individual stock, sector specific and market wide moves:
  - Individual Stock Scenarios: these scenarios capture events where a single stock moves significantly compared with the other stocks
  - Sector Wide Scenarios: these reflect simultaneous extreme movements in cash market securities and derivative products within the same sector
    - » Only sectors that generate the largest exposures to ASX Clear are used (currently 6)
    - » The stress scenario is applied to all stocks in the specified sector
  - Market Wide Scenarios: these account for simultaneous extreme movements in all cash market securities and derivative products. These scenarios are the most extreme and are likely to produce the highest potential stress losses
    - » The largest market level stress scenarios are currently a 15% price decrease and 10% price increase
- The stress testing regime for ASX Clear (Futures) comprises a suite of 42 portfolio and single-contract stress-test scenarios, each calibrated to a severity equivalent to a one-in-30 year event for single-asset scenarios, and a one-in-100 year event for multi-asset scenarios. 32 of these scenarios apply shocks to the SPI 200, 90-day bank accepted bill, 3-year bond and 10-year bond futures contracts. The sampling distribution used by ASX Clear (Futures) reflects the period in which ASX has judged historical data as consistent and relevant to current market structures. Scenario shocks that include the 4 listed futures contracts include:
  - 20 'multi-asset' scenarios apply combinations of simultaneous price movements across all four contracts listed futures products
  - 8 'single contract' scenarios model extreme price movements in each of the four contracts individually
  - 4 scenarios model large co-movements in the interest rate contracts, but with no movement in equities
  - 40 (of the 42 total) scenarios apply shocks to OTC Interest Rate Derivatives instruments (including positions in futures allocated for cross margining)

## PFMI Disclosure Framework | Principle 4

### PFMI/FSS

A CCP should have clearly documented and effective rules and procedures to report stress-test information to appropriate decision-makers and ensure that additional financial resources are obtained on a timely basis in the event that projected stress-test losses exceed available financial resources.

Where projected stress-test losses of a single or only a few participants exceed available financial resources, it may be appropriate to increase non-pooled financial resources; otherwise, where projected stress-test losses are frequent and consistently widely dispersed across participants, clear processes should be in place to augment pooled financial resources

FSS 4.7

### PFMI 4 – KEY CONSIDERATION 7

An FMI should establish explicit rules and procedures that address fully any credit losses it may face as a result of any individual or combined default among its participants with respect to any of their obligations to the FMI.

These rules and procedures should address how potentially uncovered credit losses would be allocated, including the repayment of any funds an FMI may borrow from liquidity providers. These rules and procedures should also indicate the FMI's process to replenish any financial resources that the FMI may employ during a stress event, so that the FMI can continue to operate in a safe and sound manner

FSS 4.8

### HOW ASX CENTRAL COUNTERPARTIES COMPLY

- ASX's CCPs report stress-test information to appropriate decision-makers on a daily basis and ensure that additional financial resources are available on a timely basis in the event that a projected stress-test loss exceeds available financial resources
  - The CCPs' Operating Rules and Procedures allow for additional initial margin to be called from a Clearing Participant where the CCP deems the current level of cover from that Clearing Participant to be insufficient
  - To determine the Additional Initial Margin requirements of a Clearing Participant, calculations take into account stress test scenarios which shift underlying prices (and volatility for options). The results from these calculations determine the Potential Stress Loss for each Clearing Participant under extreme market conditions. The Potential Stress Loss is then compared to the Stress Test Exposure Limit assigned to the Clearing Participant. Each Clearing Participant is assigned a Stress Test Exposure Limit (STEL) in accordance with their current Internal Credit Rating. Clearing Participants with higher internal credit ratings are allocated higher STEL. A maximum Potential Stress Loss will be calculated for each Clearing Participant and will be compared against the STEL. Any participant whose Potential Loss exceeds their STEL will be required to lodge STEL related Additional Initial Margin with the CCP. The size of such Additional Initial Margin will equal the excess of stress testing losses beyond the CCP's financial resources, and, in a default, would be available to ASX Clear and ASX Clear (Futures) ahead of their own financial resources
  - Factors that ASX would consider when determining an increase or change to default resources would be if stress-test results in excess of prefunded pooled resources were persistent, significant and widespread
- 
- ASX undertook public consultation in October 2014 on proposed new recovery tools to fully allocate uncovered losses and replenish financial resources following participant default. Following consideration of the responses to consultation, ASX expects to consult on amendments to the operating rules of the ASX CCPs to implement these new recovery tools in early Q22015 with a view to implementation of the new rules in mid-2015



## PFMI Disclosure Framework | Principle 5

### PRINCIPLE 5 – COLLATERAL:

An FMI that requires collateral to manage its or its participants' credit exposures should accept collateral with low credit, liquidity and market risks. A CCP should also set and enforce appropriately conservative haircuts and concentration limits

#### PFMI/FSS

##### PFMI 5 – KEY CONSIDERATION 1

An FMI should generally limit the assets it (routinely) accepts as collateral to those with low credit, liquidity and market risks

*FSS 5.1*

In determining its collateral policies, a CCP should take into consideration the broad effect of these policies on the market. As part of this, a CCP should consider allowing the use of collateral commonly accepted in the relevant jurisdictions in which it operates

*FSS 5.2*

#### HOW ASX CENTRAL COUNTERPARTIES COMPLY

- The CCPs set strict criteria for the assets they accept as collateral, and ensure that:
  - Collateral is of a high credit standard, to mitigate the risk of:
    - » a double default event (i.e. the default of a Clearing Participant and of the collateral issuer); and,
    - » excessive levels of market volatility
  - Collateral is liquid, enabling ASX's CCPs to:
    - » liquidate the collateral in a timely fashion in the event of a default, and without any legal or operational impediments; and,
    - » mark-to-market the collateral each day, based on good quality market prices prior to any default
  - Collateral risks are managed through:
    - » valuation haircuts;
    - » related party collateral restrictions – that prevent Clearing Participants from posting their own debt or equity securities or debt or equity of companies closely linked to them; and,
    - » exception limits – where exceptions are granted in respect of related party collateral, such exceptions are monitored on a regular basis
- Details of acceptable collateral are set out on the ASX website at [www.asx.com.au/services/clearing/acceptable-collateral.htm](http://www.asx.com.au/services/clearing/acceptable-collateral.htm)
- The CCPs take into account market liquidity in determining the eligibility of collateral. Securities must be sufficiently liquid in order to be eligible as collateral and therefore should not have any material impact on market liquidity or pricing. ASX Clear (Futures) also accept US Treasury bills and foreign currencies that are highly liquid and commonly accepted and traded in the Australian market

# PFMI Disclosure Framework | Principle 5

## PFMI/FSS

### PFMI 5 – KEY CONSIDERATION 2

An FMI should establish prudent valuation practices and develop haircuts that are regularly tested and take into account stressed market conditions

*FSS 5.3*

### PFMI 5 – KEY CONSIDERATION 3

In order to reduce the need for procyclical adjustments, an FMI should establish stable and conservative haircuts that are calibrated to include periods of stressed market conditions, to the extent practicable and prudent

*FSS 5.4*

### PFMI 5 – KEY CONSIDERATION 4

An FMI should avoid concentrated holdings of certain assets where this would significantly impair the ability to liquidate such assets quickly without significant adverse price effects

*FSS 5.5*

## HOW ASX CENTRAL COUNTERPARTIES COMPLY

- The CCPs apply prudent collateral valuation haircuts, that take into consideration relevant risk characteristics of the instrument including:
  - the risks arising from issuer's country of residence;
  - the maturity of the instrument;
  - historical and potential future price volatility of the instrument in both normal and stressed market conditions;
  - the liquidity of the underlying market;
  - foreign exchange risk (if any); and,
  - procyclical effects
- The CCPs have stable and conservative haircuts that consider potential pro-cyclical effects on collateral prices. This includes taking into account stressed market conditions when setting haircut rates
- The impact of concentrations on collateral holdings is mitigated by the fact ASX's CCPs only accept collateral where Credit quality is transparent, either through externally verifiable standards (S&P ratings of A+/AAA, A+ ADIs, or being a constituent of a major index- the S&P ASX 200). The standard for credit quality is an indication that those high quality instruments are liquid, non-volatile, and priced adequately

## PFMI Disclosure Framework | Principle 5

### PFMI/FSS

#### PFMI 5 – KEY CONSIDERATION 5

An FMI that accepts cross-border collateral should mitigate the risks associated with its use and ensure that the collateral can be used in a timely manner

*FSS 5.6*

#### PFMI 5 – KEY CONSIDERATION 6

An FMI should use a collateral management system that is well designed and operationally flexible

*FSS 5.7*

### HOW ASX CENTRAL COUNTERPARTIES COMPLY

- The CCPs have limits on the amount of collateral held that is denominated in foreign currency. In addition, the CCPs have the ability to use FX swaps to ensure that cross-border collateral can be used in a timely manner
- ASX's CCPs have well-designed collateral management systems that manage collateral lodgement against margins. The systems have the ability to allocate collateral in order to optimally manage collateral coverage of exposures. The systems also facilitate valuation of collateral through an automated daily pricing process

## PFMI Disclosure Framework | Principle 6

### PRINCIPLE 6 – MARGIN:

A CCP should cover its credit exposures to its participants for all products through an effective margin system that is risk based and regularly reviewed

#### PFMI/FSS

##### PFMI 6 – KEY CONSIDERATION 1

A CCP should have a margin system that establishes margin levels commensurate with the risks and particular attributes of each product, portfolio and market it serves

FSS 6.1

##### PFMI 6 – KEY CONSIDERATION 2

A CCP should have a reliable source of timely price data for its margin system. A CCP should also have procedures and sound valuation models for addressing circumstances in which pricing data are not readily available or reliable

FSS 6.2

#### HOW ASX CENTRAL COUNTERPARTIES COMPLY

- The CCPs operate margin systems that ensure margin levels are commensurate with the risks and particular attributes of each product, portfolio and market
  - The choice of margin system is driven by the specific requirements and characteristics of each market/ product class. The systems themselves use proven methodologies:
  - The margin systems used for Initial Margin are:
    - ASX Clear:
      - » Equity Derivatives: SPAN (Standard Portfolio Analysis of Risk)
      - » Cash Equities: Combination of Historical Simulation VaR and Flat Rates
    - ASX Clear (Futures):
      - » Futures: SPAN
      - » OTC Interest Rate Derivatives: Filtered Historical Simulation VaR
  - Further details on margining for ASX Clear can be found on the ASX website at [www.asx.com.au/services/clearing/asx-clear-margining.htm](http://www.asx.com.au/services/clearing/asx-clear-margining.htm)
  - Further details on Futures margining for ASX Clear (Futures) can be found on the ASX website at [www.asx.com.au/services/clearing/asx-clear-futures-margining.htm](http://www.asx.com.au/services/clearing/asx-clear-futures-margining.htm)
  - Further details on OTC Interest Rate Derivatives margining can be found in the ["ASX OTC Interest Rate Derivatives Clearing – Service Description"](#)
- 
- For listed products, official end-of-day settlement prices are used for margining
  - For OTC Interest Rate Derivatives, standard mark-to-market methodologies in conjunction with end-of-day market interest rates are used for margining

## PFMI/FSS

### PFMI 6 – KEY CONSIDERATION 3

A CCP should adopt initial margin models and parameters that are risk based and generate margin requirements sufficient to cover its potential future exposure to participants in the interval between the last margin collection and the close out of positions following a participant default. Initial margin should meet an established single-tailed confidence level of at least 99 per cent with respect to the estimated distribution of future exposure.

For a CCP that calculates margin at the portfolio level, this requirement applies to each portfolio's distribution of future exposure. For a CCP that calculates margin at more granular levels, such as at the sub-portfolio level or by product, the requirement must be met for the corresponding distributions of future exposure.

The model should (a) use a conservative estimate of the time horizons for the effective hedging or close out of the particular types of products cleared by the CCP (including in stressed market conditions), (b) have an appropriate method for measuring credit exposure that accounts for relevant product risk factors and portfolio effects across products and, (c) to the extent practicable and prudent, limit the need for destabilising, procyclical changes

FSS 6.3

## HOW ASX CENTRAL COUNTERPARTIES COMPLY

- The CCPs ensure that margin requirements are sufficient to cover its potential future exposure to participants in the interval between the last margin collection and the close out of positions following a participant default
- The margin models assume a conservative time horizon for hedging and close out
- A summary of the margin methodology used for each product class, including confidence intervals and assumed close out periods, are highlighted in the following table:

Product Group	Margin Methodology	Confidence Intervals	Close-out Assumption
Equity Derivatives	SPAN	99	Max(1-2)
Cash Equity - VaR	VaR, Flat Rates	99	1 - 3
Exchange-Traded-Derivatives	SPAN	99	Max(1-2)
OTC	VaR	99.5	5 - 7

## PFMI/FSS

### PFMI 6 – KEY CONSIDERATION 4

A CCP should mark participant positions to market and collect variation margin at least daily to limit the build-up of current exposures. A CCP should have the authority and operational capacity to make intraday margin calls and payments, both scheduled and unscheduled, to participants

FSS 6.4

## HOW ASX CENTRAL COUNTERPARTIES COMPLY

- The CCPs' Operating Rules and Procedures give the CCPs authority and operational capacity to collect margins on a daily basis and variation margin on an intraday basis in order to limit the build-up of current exposures
- Each of the CCPs has slightly different arrangements for the calling and collecting of margins:
  - ASX Clear:
    - » For cash equities transactions (risk and mark to market), margins are calculated based on end of day prices and settled at 10.30am the following business day. Currently there is no intraday margin called against cash equities transactions;
    - » For derivatives transactions (Exchange Traded Options), margins are calculated based on end of day prices and settled at 10.30am the following business day. If during the day the S&P/ASX 200 index moves by greater than 1% in either direction then an ad hoc intraday margin call will be made and Clearing Participants will be called for margin where the initial margin on their portfolio has been eroded by more than 40% and the margin call is greater than \$100,000
  - ASX Clear (Futures):
    - » For Futures (Futures and Options over Futures), margins are calculated based on end of day prices and settled at 10.30am the following business day. At 8.30am the CCP also looks at the impact on positions from the trading conducted in the overnight trading session to assess if any of the 10.30 am settlement obligations need to be adjusted
    - » There is a scheduled intraday margin call at 11.30am and Clearing Participants will be called for margin where the initial margin on their portfolio has been eroded by a certain percentage and the margin call is greater than a certain value, refer below:

Participant Type	Erosion	Value
OTC Clearing Participant	10%	\$1,000,000
OTC & Futures Clearing Participant	20%	\$1,000,000
Futures Clearing Participant	25%	\$100,000

- » If during the day the S&P/ASX 200 index moves by greater than 1% in either direction then an ad hoc intraday margin call will be made and Clearing Participants will be called for margin where the initial margin on their portfolio has been eroded by a certain percentage and the margin call is greater than a certain value, refer above table

For all scheduled and ad hoc intraday margin calls, the impacted clearing participants are notified via email and given two hours to settle their margin obligation via Austraclear, unless otherwise advised



## PFMI Disclosure Framework | Principle 6

### PFMI/FSS

#### PFMI 6 – KEY CONSIDERATION 5

In calculating margin requirements, a CCP may allow offsets or reductions in required margin across products that it clears or between products that it and another CCP clear, if the risk of one product is significantly and reliably correlated with the risk of the other product. Where two or more CCPs are authorised to offer cross-margining, they must have appropriate safeguards and harmonised overall risk management systems

FSS 6.5

### HOW ASX CENTRAL COUNTERPARTIES COMPLY

- The margining methodology used by the CCPs allows for margin requirements to be offset across products if one product is significantly and reliably correlated with the risk of the other product, however this is only allowed within a CCP and not across CCPs
- ASX Clear (Futures) – Exchange Traded Derivatives and ASX Clear Derivative Margins: SPAN methodology allows offsets in the form of 'inter-commodity spread concessions'. These offsets reduce margin requirements for reliable correlations across related contracts. Inter-commodity spread concessions are only applied where measures of correlation between contracts exceed 30 per cent and the correlation is based on economic fundamentals. ASX uses sensitivity analysis to verify the reliability of correlations between products used in calculating inter-commodity spread concessions
- ASX Clear Cash Market: ASX Clear applies margin at a portfolio (Clearing Participant) level for its cash market securities using its HSVaR methodology. This implicitly reduces the margin requirements for any products within the portfolio that have displayed negatively correlated risks over the previous 2 years. The use of historical simulation over a 2-year period establishes the significance and reliability of these correlations
- ASX Clear (Futures) OTC Market: ASX Clear (Futures) applies HSVaR methodology in its margining approach for the OTC interest market. This implicitly reduces the margin requirements for any products within the portfolio that have displayed negatively correlated risks over the previous 5 years. The use of historical simulation over a 5-year period establishes the significance and reliability of these correlations
- ASX Clear (Futures) also offers OTC participants the ability to choose to cross-margin specific directly cleared interest rate futures by allocating these positions to their OTC derivatives portfolio. If participants choose to do so, the allocated interest rate futures are margined under the OTC IRS Historic VaR model, rather than using the SPAN methodology. HSVaR margining can result in less conservative estimates of correlations than SPAN, and higher margins (lower offsets) as interest rate futures in the pool under the OTC IRS Historic VaR methodology are subjected to a five-day rather than a one to two day close-out assumption

# PFMI Disclosure Framework | Principle 6

## PFMI/FSS

### PFMI 6 – KEY CONSIDERATION 6

A CCP should analyse and monitor its model performance and overall margin coverage by conducting rigorous daily backtesting and at least monthly, and more frequent where appropriate, sensitivity analysis. A CCP should regularly conduct an assessment of the theoretical and empirical properties of its margin model for all products it clears. In conducting sensitivity analysis of the model's coverage, a CCP should take into account a wide range of parameters and assumptions that reflect possible market conditions, including the most volatile periods that have been experienced by the markets it serves and extreme changes in the correlations between prices

FSS 6.6

### PFMI 6 – KEY CONSIDERATION 7

A CCP should regularly review and validate its margin system

FSS 6.7

In designing its margin system, a CCP should consider the operating hours of payment and settlement systems in the markets in which it operates

FSS 6.8

## HOW ASX CENTRAL COUNTERPARTIES COMPLY

- Both CCPs monitor overall margin coverage on a daily basis
  - Daily backtesting of margin coverage, both static and dynamic, is performed for both CCPs and is summarised in monthly reports
  - Sensitivity analysis of the key margin model parameters is performed on both CCPs and is summarised in monthly reports as part of an ongoing Margin Rate review process
  - Daily emails on Back Testing results are sent out to internal stakeholders
  - The pro-cyclicality is addressed by setting floors across a range of risk parameter inputs in CCPs margin models, incorporating stressed market conditions in the sensitivity analysis and using short term volatilities. Sensitivity analysis then looks to stretch assumptions and look for possible breaches
- 
- Model validation process in place is over and above the ongoing back testing and sensitivity analysis of margin model inputs and outputs
  - Model validation also includes the evaluation of model assumptions and conceptual soundness commensurate with the risks and particular attributes of the product and the market in which the model operates
  - There is a model validation standard and an approach as agreed with the RBA which addresses all models including margining models which lays out the framework for external and internal model validations. Models are ranked by key factors: Dollar Impact, Priority of Protection, External Impact, Market Structure, Product impact, Model Review (last) and Complexity
  - For Models above 3/5 risk rating external independent model validation is required annually. For models between 2.5-3 external model validation is required bi-annually. And for models below 2.5 independent model validation is done every 2-3 years
  - Note if the margin model has been materially changed or the market materially changed then such factors will impact weighting such that models may increase risk weightings into higher buckets requiring review sooner or full external validation rather than independent validation
- 
- All margin calls must be settled through Austraclear. It is business practice to provide participants with 2 hours' notice in which to settle a margin call. Therefore, as Austraclear closes at 4:25pm, the latest that ASX will exercise an intraday margin call is approximately 2pm. In extreme circumstances, the CCPs may elect to shorten the notice period, however, any shortened notice would still be required to meet Austraclear's operating hours, which are stated in the Austraclear Regulations
  - The CCPs' Operating Rules and Procedures also state the operating hours of the payment and settlement systems

## PFMI Disclosure Framework | Principle 7

### PRINCIPLE 7 – LIQUIDITY RISK:

An FMI should effectively measure, monitor, and manage its liquidity risk. An FMI should maintain sufficient liquid resources in all relevant currencies to effect same-day and, where appropriate, intraday and multiday settlement of payment obligations with a high degree of confidence under a wide range of potential stress scenarios that should include, but not be limited to, the default of the participant and its affiliates that would generate the largest aggregate liquidity obligation for the FMI in extreme but plausible market conditions

#### PFMI/FSS

#### PFMI 7 – KEY CONSIDERATION 1

An FMI should have a robust framework to manage its liquidity risks from its participants, settlement agents, nostro agents, custodian banks, liquidity providers and other entities

FSS 7.1

#### HOW ASX CENTRAL COUNTERPARTIES COMPLY

- ASX Clearing Corporation (ASXCC) manages the investment of Clearing Participant cash margins and default funds for both of ASX's CCPs
- The CCPs' liquidity risk management framework is set out in the ASX Liquidity Risk Policy and the ASXCC Investment Mandate which is implemented by using appropriate systems, models, processes and procedures
- The key features of ASX's approach to liquidity management are as follows:
  - 100% of the capital for both CCPs (from ASX and from participants) is in cash
  - Overwhelming majority of margin for ASX Clear (Futures) is received as cash
  - The eligible collateral for ASX Clear consists of high quality equity securities which are subject to a substantial (30%) haircut
  - All securities invested in by ASXCC (for both CCPs) are eligible for a repurchase agreement (Repo) at the RBA
  - ASXCC is one of only a handful of non-bank entities who have a direct Exchange Settlement Account (ESA) with the RBA (allowing repo directly with the RBA)
  - ASX's liquidity policy requires a minimum holding of liquidity (defined as same day availability) to meet both Ordinary Liquidity Requirements and estimated Default Liquidity Requirements (DLR)
  - The DLR is calculated on a Cover 2 plus affiliates basis for ASX Clear Futures and Cover 1 plus affiliates for ASX Clear (both on a stress basis). As set out in Key Consideration 4 below, ASX Clear will move to a Cover 2 plus affiliates basis at the end of Q1 2015
  - ASX Clear's rule book gives the CCP the contractual right to use Offsetting Transaction Arrangements (OTAs) with non-defaulting participants who are counterparties to outstanding sale transactions with a defaulting participant. OTAs are a form of contingent liquidity from participants available at the option of the CCP and which are "funded" by the sale proceeds due to be received by that participant from the defaulting participant
- ASX helps enable its Participants to manage their own liquidity risk by:
  - Providing sufficient notification to meet Intraday, end of day and ad-hoc margin obligations,
  - Providing transparency in the methodologies used in margin and settlement determination,
  - Providing sufficient transparency of the collateral lodgement requirements and timings

# PFMI Disclosure Framework | Principle 7

## PFMI/FSS

### PFMI 7 – KEY CONSIDERATION 2

An FMI should have effective operational and analytical tools to identify, measure and monitor its settlement and funding flows on an ongoing and timely basis, including its use of intraday liquidity

*FSS 7.2*

### PFMI 7 – KEY CONSIDERATION 3

*NO CORRESPONDING FSS*

### PFMI 7 – KEY CONSIDERATION 4

A CCP should maintain sufficient liquid resources in all relevant currencies to settle securities-related payments, make required variation margin payments and meet other payment obligations on time with a high degree of confidence under a wide range of potential stress scenarios that should include, but not be limited to, the default of the participant and its affiliates that would generate the largest aggregate payment obligation to the CCP in extreme but plausible market conditions. In addition, a CCP that is involved in activities with a more complex risk profile or that is systemically important in multiple jurisdictions should consider maintaining additional liquidity resources sufficient to cover a wider range of potential stress scenarios that should include, but not be limited to, the default of the two participants and their affiliates that would generate the largest aggregate payment obligation to the CCP in extreme but plausible market conditions

*FSS 7.3*

## HOW ASX CENTRAL COUNTERPARTIES COMPLY

- The CCPs' daily settlement and funding flows are identified, measured and monitored on a timely basis, including on an intraday basis through a number of systems
  - Daily reports of key risk indicators, related to liquidity demands are reviewed to ensure there are no issues. Margin and collateral holding information feeds into ASX's Treasury Management System every morning (or intraday if required). This allows Portfolio Risk Management to view this information and enter trades required to manage daily cash-flows into ASX's Treasury Management System. Clearing and Settlement Operations then use daily settlement reports produced by the Treasury Management System to generate settlement instructions in Austraclear, which results in cash flow movements to be monitored in RITS
- 
- Applicable to SSFs only
- 
- ASXCC's liquidity requirement is determined by estimating the liquidity requirements of ASX Clear and ASX Clear (Futures) in both normal conditions (i.e. ordinary day-to-day portfolio cash outflows) and the potential liquidity needs of the CCPs in the event of Clearing Participant default
  - As set out in the Supplementary Interpretation of the Financial Stability Standards for Central Counterparties (issued 27 October 2014) the RBA considers both of ASX's CCPs to be of systemic importance in multiple jurisdictions.
  - As a result of this Supplementary Interpretation, each CCP is required to maintain financial resources to cover the default of the two largest participants and their affiliates (by credit exposure) in extreme but plausible market conditions.
  - ASX Clear (Futures) currently maintains sufficient liquid resources to cover the default of the two Clearing Participants and their affiliates that generate the largest aggregate payment obligation to ASX Clear (Futures) in extreme but plausible market conditions with a high degree of confidence
  - ASX Clear will move from its current "Cover 1" standard to the higher "Cover 2" standard at the end of Q1 2015, and, as a result, will maintain liquid resources to cover liquidity needs in the event of the default of the two participants and their affiliates that would generate the largest aggregate payment obligation to the central counterparty in extreme but plausible market conditions

# PFMI Disclosure Framework | Principle 7

## PFMI/FSS

## HOW ASX CENTRAL COUNTERPARTIES COMPLY

### PFMI 7 – KEY CONSIDERATION 5

For the purpose of meeting its minimum liquid resources requirement, an FMI's qualifying liquid resources in each currency include cash at the central bank of issue and at creditworthy commercial banks, committed lines of credit, committed foreign exchange swaps and committed repos, as well as highly marketable collateral held in custody and investments that are readily available and convertible into cash with prearranged and highly reliable funding arrangements, even in extreme but plausible market conditions. If an FMI has access to routine credit at the central bank of issue, the FMI may count such access as part of the minimum requirement to the extent it has collateral that is eligible for pledging to (or for conducting other appropriate forms of transactions with) the relevant central bank. All such resources should be available when needed

FSS 7.4

- ASX has introduced ASX Clear and ASX Settlement Operating Rule amendments to allow the creation of OTAs with non-defaulting Clearing Participants in the event that a Clearing Participant fails to meet a payment obligation in relation to a cash equity transaction. This arrangement settles obligations and entitlements under CCP Batch Instructions which would otherwise fail due to outstanding payment obligations. OTAs replace the previous settlement rescheduling arrangements for those failed CCP Batch Instructions and facilitate the settlement of CCP Batch Instructions on the scheduled settlement date
- ASXCC is the controlling entity for the treasury investments for both ASX Clear and ASX Clear (Futures), which are settled across ASXCC's Exchange Settlement Account (ESA) held with the RBA
- ASXCC invests funds in accordance with the Investment Mandate - this covers both cash margin collected and prefunded default funds
- The principal objective of the Investment Mandate is to ensure that the investment portfolio is made up of highly liquid financial instruments with a high credit quality and low levels of market risk
- Investments are restricted to highly liquid, short term investments with counterparties of high credit standing. All securities purchased are required to be on the RBA's eligible securities list for re-purchase purposes
- The primary driver of ASXCC's investment objective is the need to ensure timely and certain access to funds at all times, including in the event of a Clearing Participant default
- Timely and reliable access to liquid resources, as defined by the Investment Mandate, means:
  - Cash available for use within two hours; or,
  - Securities traded in a liquid market which can be sold for same day value with settlement proceeds available within two hours and which are eligible for repurchase transactions with the Reserve Bank of Australia

# PFMI Disclosure Framework | Principle 7

## PFMI/FSS

### PFMI 7 – KEY CONSIDERATION 6

An FMI may supplement its qualifying liquid resources with other forms of liquid resources. If the FMI does so, these liquid resources should be in the form of assets that are likely to be saleable or acceptable as collateral for lines of credit, swaps or repos on an ad hoc basis following a default, even if this cannot be reliably prearranged or guaranteed in extreme market conditions. Even if an FMI does not have access to routine central bank credit, it should still take account of what collateral is typically Vaccepted by the relevant central bank, as such assets may be more likely to be liquid in stressed circumstances. An FMI should not assume the availability of emergency central bank credit as part of its liquidity plan

FSS 7.5

### PFMI 7 – KEY CONSIDERATION 7

An FMI should obtain a high degree of confidence, though rigorous due diligence, that each provider of its minimum required qualifying liquid resources, whether a participant of the FMI or an external party, has sufficient information to understand and to manage its associated liquidity risks, and that it has the capacity to perform as required under its commitment. Where relevant to assessing a liquidity provider's performance reliability with respect to a particular currency, a liquidity provider's potential access to credit from the central bank of issue may be taken into account. An FMI should regularly test its procedures for accessing its liquid resources at a liquidity provider

FSS 7.6

## HOW ASX CENTRAL COUNTERPARTIES COMPLY

- The CCPs do not rely on supplemental liquid resources, as they meet their minimum liquidity requirements through their qualifying liquid resources
- As set out in the ASXCC Investment Mandate, investments are restricted to highly liquid, short term investments with counterparties of high credit standing. The credit quality of investment counterparties takes into account both short and long term publically available credit ratings – eligible counterparties are required to have a minimum external short-term credit rating equal to or above Standard & Poor's 'A-1' rating
- Exposures within the investment portfolio are managed using several different limits including limits on maximum exposure to a single investment counterparty and by counterparty category



# PFMI Disclosure Framework | Principle 7

## PFMI/FSS

### PFMI 7 – KEY CONSIDERATION 8

An FMI with access to central bank accounts, payment services or securities services should use these services, where practical, to enhance its management of liquidity risk

FSS 7.7

### PFMI 7 – KEY CONSIDERATION 9

An FMI should determine the amount and regularly test the sufficiency of its liquid resources through rigorous stress testing. An FMI should have clear procedures to report the results of its stress tests to appropriate decision-makers at the FMI and to use these results to evaluate the adequacy of, and adjust, its liquidity risk management framework. In conducting stress testing, an FMI should consider a wide range of relevant scenarios. Scenarios should include relevant peak historic price volatilities, shifts in other market factors such as price determinants and yield curves, multiple defaults over various time horizons, simultaneous pressures in funding and asset markets, and a spectrum of forward-looking stress scenarios in a variety of extreme but plausible market conditions. Scenarios should also take into account the design and operation of the FMI, include all entities that might pose material liquidity risks to the FMI (such as settlement banks, nostro agents, custodian banks, liquidity providers and linked FMIs) and, where appropriate, cover a multiday period. In all cases, an FMI should document its supporting rationale for, and should have appropriate governance arrangements relating to, the amount and form of total liquid resources it maintains

FSS 7.8

## HOW ASX CENTRAL COUNTERPARTIES COMPLY

### ➤ The CCPs use the following services to enhance their liquidity risk management:

- Austraclear: Clearing Participants settle routine margin payments in respect of ASX derivatives positions (for both ASX Clear and ASX Clear (Futures)) and novated unsettled cash equity market obligations (for ASX Clear only) via cash transfers in Austraclear, which settle in real time via RITS
- RBA ESA: Payments transactions reflecting margin-related funds movements and treasury investments for both CCPs are settled using ASXCC's ESA

### ➤ The CCPs assess the adequacy of their liquidity arrangements in the event of Clearing Participant default using the ASX Liquidity Stress Testing (LST) model on a daily basis

### ➤ In order to estimate the liquidity that the CCPs need to hold in order to manage Clearing Participant default events, the CCPs stress test Clearing Participant positions using possible adverse price moves (stress scenarios) in extreme but plausible market conditions (and, in the case of ASX Clear, different settlement/close-out assumptions) in the time between the last payment of margin and the time of close-out, these are the LST values. The worst case LST value (i.e. the largest hypothetical LST loss for any single Clearing Participant and its affiliates (increased to the two largest Clearing Participants and their affiliates at the end of Q1 2015 as per Key Consideration 4 above) on ASX Clear and the two largest Clearing Participants and their affiliates on ASX Clear (Futures)) irrespective of credit standing and across all scenarios, is taken as the Default Liquidity Requirement (DLR) each day (for ASX Clear (Futures)) or used to monitor the adequacy of the liquidity resources (for ASX Clear)

### ➤ The Liquidity Stress Testing model is aligned with the ASX Capital Stress Testing (CST) model which uses a comprehensive range of stress scenarios, however, assumption on portability and settlement cashflows within the CST model and the LST model differ for ASX Clear

### ➤ The Liquidity Risk Policy and ASXCC Investment Mandate sets out the rationale for, and governance arrangements relating to, the amount and form of liquid resources it maintains

### ➤ The results of liquidity stress testing are regularly reported to ASX senior management, Clearing and Settlement Boards and the RBA

## PFMI Disclosure Framework | Principle 7

### PFMI/FSS

#### PFMI 7 – KEY CONSIDERATION 10

An FMI should establish explicit rules and procedures that enable the FMI to effect same-day and, where appropriate, intraday and multiday settlement of payment obligations on time following any individual or combined default among its participants. These rules and procedures should address unforeseen and potentially uncovered liquidity shortfalls and should aim to avoid unwinding, revoking or delaying the same-day settlement of payment obligations. These rules and procedures should also indicate the FMI's process to replenish any liquidity resources it may employ during a stress event, so that it can continue to operate in a safe and sound manner

*FSS 7.9*

### HOW ASX CENTRAL COUNTERPARTIES COMPLY

- ASX has introduced ASX Clear and ASX Settlement Operating Rule amendments to allow the creation of OTAs with non-defaulting Clearing Participants in the event that a Clearing Participant fails to meet a payment obligation in relation to a cash equity transaction. This arrangement settles obligations and entitlements under CCP Batch Instructions which would otherwise fail due to outstanding payment obligations. OTAs replace the previous settlement rescheduling arrangements for those failed CCP Batch Instructions and facilitate the settlement of CCP Batch Instructions on the scheduled settlement date
- ASX undertook public consultation in October 2014 on proposed new recovery tools to address uncovered liquidity shortfalls and replenish financial resources following participant default. Following consideration of the responses to consultation, ASX expects to consult on amendments to the operating rules of the ASX CCPs to implement these new recovery tools in early Q22015 with a view to implementation of the new rules in mid-2015

## PFMI Disclosure Framework | Principle 8

### PRINCIPLE 8 – SETTLEMENT FINALITY:

An FMI should provide clear and certain final settlement, at a minimum by the end of the value date. Where necessary or preferable, an FMI should provide final settlement intraday or in real time

#### PFMI/FSS

##### PFMI 8 – KEY CONSIDERATION 1

An FMI's rules and procedures should clearly define the point at which settlement is final

FSS 8.1

##### PFMI 8 – KEY CONSIDERATION 2

An FMI should complete final settlement no later than the end of the value date, and preferably intraday or in real time, to reduce settlement risk

FSS 8.2

##### PFMI 8 – KEY CONSIDERATION 3

An FMI should clearly define the point after which unsettled payments, transfer instructions or other obligations may not be revoked by a participant

FSS 8.3

#### HOW ASX CENTRAL COUNTERPARTIES COMPLY

- Movement of equity securities in CHES from delivering settlement Entrepot accounts to receiving Entrepot accounts will only occur after receipt of a message from RITS indicating that cash has settled across ESA accounts (for ASX Clear only)
  - ASX CCPs' Operating Rules and Procedures describe the extent of the CCPs' contractual obligations including the point of settlement finality
  - Margin payments within Austraclear will occur after receipt of a message from RITS indicating that cash has settled across ESA accounts for settlement. All payments are irrevocable once they are accepted by Austraclear
  - Margin payments within NZ Clear will occur after receipt of a message that they have been accepted by NZ Clear. All payments are irrevocable once they are accepted by NZ Clear. Transactions are not accepted by the system unless the paying member has sufficient credit provided by their Settlement Bank
- 
- ASX CCPs complete settlement in accordance with the Operating Rules and Procedures of Austraclear, ASX Settlement (for ASX Clear only) or RITS
  - Delivery versus Payment (DvP) Model 1 (Austraclear – for ASX Clear (Futures) and ASXCC Treasury settlements) and DvP Model 3 (Equities – for ASX Clear only) settlement systems are used
  - In addition, CHES facilitates Real Time Gross Settlement (RTGS) – ASX Clear only
  - Movement of equity securities in CHES from delivering settlement Entrepot accounts to receiving Entrepot accounts will only occur after receipt of a message from RITS indicating that cash has settled across ESA accounts (ASX Clear only)
  - The deadlines for completion of equity batch settlement and the obligations of Payment Providers are set out in the CHES Payments Interface Standard Payments Provider Deed (ASX Clear only)
- 
- ASX CCPs complete settlement in accordance with the Operating Rules and Procedures of Austraclear, ASX Settlement (for ASX Clear only) or RITS
  - Movement of securities in Austraclear will only occur once a message is received from RITS that the cash leg has settled across ESA accounts. The point at which settlement is final is set out in the Austraclear Regulations at Sections 14, 15 and 16
  - For ASX Settlement, movement of equity securities in CHES from delivering settlement Entrepot accounts to receiving Entrepot accounts will only occur after receipt of a message from RITS indicating that cash has settled across ESA accounts. The point at which settlement is final is set out in the ASX Settlement Operating Rules at Section 10
  - Unsettled payments may not be revoked after they match and the cash leg has settled across ESA accounts

## PFMI Disclosure Framework | Principle 9

### PRINCIPLE 9 – MONEY SETTLEMENTS:

An FMI should conduct its money settlements in central bank money where practical and available. If central bank money is not used, an FMI should minimise and strictly control the credit and liquidity risk arising from the use of commercial bank money

#### PFMI/FSS

##### PFMI 9 – KEY CONSIDERATION 1

An FMI should conduct its money settlements in central bank money, where practical and available, to avoid credit and liquidity risks

FSS 9.1

##### PFMI 9 – KEY CONSIDERATION 2

If central bank money is not used, an FMI should conduct its money settlements using a settlement asset with little or no credit or liquidity risk

FSS 9.2

##### PFMI 9 – KEY CONSIDERATION 3

If an FMI settles in commercial bank money, it should monitor, manage and limit its credit and liquidity risks arising from the commercial banks. In particular, an FMI should establish and monitor adherence to strict criteria for its settlement banks that take account of, among other things, their regulation and supervision, creditworthiness, capitalisation, access to liquidity and operational reliability. An FMI should also monitor and manage the concentration of credit and liquidity exposures to its commercial settlement banks

FSS 9.3

#### HOW ASX CENTRAL COUNTERPARTIES COMPLY

- All \$AUD settlements are conducted via CHES (for ASX Clear only) and Austraclear (for both CCPs) across ESAs in RITS
  - All \$NZ settlements are conducted via NZ Clear accounts (ASX Clear (Futures) only)
  - ESA accounts are held in the name of ASXCC (for both CCPs) and ASX Settlement Pty Limited (for ASX Clear only)
  - NZ Clear accounts are held in the name of ASXCC Limited as Trustee for ASXCC Trust (ASX Clear (Futures) only)
  - Other currencies are all low value/volume and are settled via commercial bank arrangements (ASX Clear (Futures) only)
- 
- Other currencies are all low value/volume and are settled via commercial bank arrangements. (ASX Clear (Futures) only)
  - The account is held in the name of ASX Clear (Futures), however novated to ASXCC Limited
  - ASX maintains a small float in required currencies
- 
- Other currencies are all low value/volume and are settled via commercial bank arrangements. (ASX Clear (Futures) only)
  - Given the current value and volume of non-\$AUD/\$NZ settlements, no formal criteria have been established to deal with the regulation, supervision, creditworthiness, capitalisation, access to liquidity and operational reliability of commercial bank arrangements
  - Should future initiatives increase the value and volume of settlements through commercial bank arrangements, the appropriate criteria and risk management framework will be established
  - The CCPs do not monitor or manage Clearing Participants' credit and liquidity exposure inherent in the Clearing Participant's own banking arrangements. The individual Clearing Participants are in the best position to monitor and manage their own arrangements
  - In the case of ASX Clear, Section 5 and Schedule 1 of the CCP's Operating Rules incorporate measures around Clearing Participant's credit and liquidity exposures

## PFMI Disclosure Framework | Principle 9

### PFMI/FSS

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#### PFMI 9 – KEY CONSIDERATION 4

If an FMI conducts money settlements on its own books, it should minimise and strictly control its credit and liquidity risks. No corresponding FSS

*FSS 9.4*

#### PFMI 9 – KEY CONSIDERATION 5

An FMI's legal agreements with any settlement banks should state clearly when transfers on the books of individual settlement banks are expected to occur, that transfers are to be final when effected, and that funds received should be transferable as soon as possible, at a minimum by the end of the day and ideally intraday, in order to enable the FMI and its participants to manage credit and liquidity risks

*FSS 9.5*

### HOW ASX CENTRAL COUNTERPARTIES COMPLY

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➤ This obligation is not applicable to ASX's CCPs

➤ Terms and Conditions set out the manner in which the commercial bank accounts operate

## PFMI Disclosure Framework | Principle 10

### PRINCIPLE 10 – PHYSICAL DELIVERY:

An FMI should clearly state its obligations with respect to the delivery of physical instruments or commodities and should identify, monitor and manage the risks associated with such physical deliveries

#### PFMI/FSS

##### PFMI 10 – KEY CONSIDERATION 1

An FMI's rules should clearly state its obligations with respect to the delivery of physical instruments or commodities

*FSS 10.1*

##### PFMI 10 – KEY CONSIDERATION 2

An FMI should identify, monitor and manage the risks and costs associated with the storage and delivery of physical instruments or commodities

*FSS 10.2*

#### HOW ASX CENTRAL COUNTERPARTIES COMPLY

- The delivery obligations of ASX Clear (Futures) are set out in Operating Rule 63 and Schedule 14. This includes both deliverable commodity and 90 Day Bank Bill futures contracts
  - At the discretion of ASX Clear (Futures), ASX Clear (Futures) may:
    - » direct a clearing participant with delivery obligations to make delivery to a nominated clearing participant holding an opposite position and to receive the settlement amount accordingly; or
    - » make or take delivery itself and pay or receive the settlement amounts accordingly
  - In certain circumstances contracts can be cash settled e.g. where ASX Clear (Futures) is required to make delivery but delivery is not received or is impossible
  - In respect of grain contracts, delivery is effected by book entry by ASX Clear (Futures) to reduce or increase, as the case may be, the amount of the Interest in the commodity held by ASX Clear (Futures) for a seller or a buyer
  - ASX 24 Operating Rules Schedules. The Futures contract specifications provide details of FMI obligations regarding physical delivery
  - ASX 24 Operating Rules Procedure 3801
  - Information about the ASX commodity markets is available on the ASX website at: [www.asx.com.au/products/about-asx-grain-futures-options.htm](http://www.asx.com.au/products/about-asx-grain-futures-options.htm)
- The delivery obligations of ASX Clear (Futures) are set out in the ASX Clear (Futures)'s Operating Rule 63
- ASX 24 Operating Rules Schedules (in particular 2.77.1 Item 23)
- ASX 24 Operating Rules Procedure 3801
- Information about the ASX commodity markets is available on the ASX website at: [www.asx.com.au/products/about-asx-grain-futures-options.htm](http://www.asx.com.au/products/about-asx-grain-futures-options.htm)

### PRINCIPLE 11: CENTRAL SECURITIES DEPOSITORIES:

A CSD should have appropriate rules and procedures to help ensure the integrity of securities issues and minimise and manage the risks associated with the safekeeping and transfer of securities. A CSD should maintain securities in an immobilised or dematerialised form for their transfer by book entry.

➤ This PFMI is Not applicable to ASX's CCPs.



## PFMI Disclosure Framework | Principle 12

### PRINCIPLE 12 – EXCHANGE-OF-VALUE SETTLEMENT SYSTEMS

If an FMI settles transactions that involve the settlement of two linked obligations (for example, securities or foreign exchange transactions), it should eliminate principal risk by conditioning the final settlement of one obligation upon the final settlement of the other

#### PFMI/FSS

##### PFMI 12 – KEY CONSIDERATION 1

An FMI that is an exchange-of-value settlement system should eliminate principal risk by ensuring that the final settlement of one obligation occurs, regardless of whether the FMI settles on a gross or net basis and when finality occurs

*FSS 11.1*

A CCP should eliminate principal risk associated with the settlement of linked obligations by ensuring that it employs an appropriate delivery versus payment (DvP), delivery versus delivery (DvD) or payment versus payment (PvP) settlement mechanism

*FSS 11.2*

#### HOW ASX CENTRAL COUNTERPARTIES COMPLY

- Model 1 (Austraclear – for ASX Clear (Futures) and ASXCC Treasury settlements) and Model 3 (Equities – ASX Clear only) settlement systems used
  - Electronic dematerialised DvP settlement
  - Movement of securities in Austraclear (ASX Clear (Futures) or ASXCC treasury settlements) will only occur once a message is received from RITS that the cash leg has settled across ESA accounts
  - Movement of equity securities in CHES (ASX clear only) from delivering settlement Entrepot accounts to receiving Entrepot accounts will only occur after receipt of a message from RITS indicating that cash has settled across ESA accounts
  - ASX Settlement Operating Rules, Section 10
  - ASX Clear Operating Rules, Section 12
  - Austraclear Regulations, Sections 14, 15 and 16
- 
- DvP Model 1 (Austraclear– for ASX Clear (Futures) and ASXCC Treasury settlements) and Model 3 (Equities – ASX Clear only) settlement systems used
  - Electronic dematerialised DvP settlement
  - Movement of securities in Austraclear (ASX Clear (Futures) or ASXCC treasury settlements) will only occur once a message is received from RITS that the cash leg has settled across ESA accounts
  - Movement of equity securities in CHES (ASX clear only) from delivering settlement Entrepot accounts to receiving Entrepot accounts will only occur after receipt of a message from RITS indicating that cash has settled across ESA accounts
  - ASX Settlement Operating Rules, Section 10
  - ASX Clear Operating Rules, Section 12
  - Austraclear Regulations, Sections 14, 15 and 16

## PFMI Disclosure Framework | Principle 13

### PRINCIPLE 13 – PARTICIPANT-DEFAULT RULES AND PROCEDURES:

An FMI should have effective and clearly defined rules and procedures to manage a participant default. These rules and procedures should be designed to ensure that the FMI can take timely action to contain losses and liquidity pressures and continue to meet its obligations

#### PFMI/FSS

##### PFMI 13 – KEY CONSIDERATION 1

An FMI should have default rules and procedures that enable the FMI to continue to meet its obligations in the event of a participant default and that address the replenishment of resources following a default

FSS 12.1

##### PFMI 13 – KEY CONSIDERATION 2

An FMI should be well prepared to implement its default rules and procedures, including any appropriate discretionary procedures provided for in its rules

FSS 12.2

##### PFMI 13 – KEY CONSIDERATION 3

An FMI should publicly disclose key aspects of its default rules and procedures

FSS 12.3

#### HOW ASX CENTRAL COUNTERPARTIES COMPLY

- The ASX Operating Rules detail the powers and actions available to a CCP in the event of a default
  - A Participant Incident Review Committee (PIRC) is called upon an incident with a Participant becoming apparent
  - In the event of a potential default, the PIRC will refer the matter to the Default Management committee (DMC)
    - ASX Clear Clearing Participant or ASX Clear (Futures) futures Clearing Participant default: once the DMC has determined that the Clearing Participant involved is in default then (following notification to the market) ASX will liaise with one or both of its brokers (authorised to act on behalf of ASX in the event of a default) to close out or hedge the defaulting Clearing Participant's outstanding obligations to the Clearing House;
    - OTC Clearing Participant default: once the DMC has determined that the Clearing Participant involved is in default then (following notification to the market) ASX will convene the Default Management Group (comprising representatives from each of the OTC Clearing Participant entities of ASX Clear (Futures)) to provide guidance and advice (such advice will be referred back to the DMC for consideration) on the best way to hedge, and subsequently auction, the defaulter's portfolio
  - ASX maintains a documented 'Default Management Framework' and comprehensive default management procedures
  - Default management processes for both CCPs are documented on the ASX website at: [www.asx.com.au/services/clearing/default-management.htm](http://www.asx.com.au/services/clearing/default-management.htm)
- 
- The ASX operating rule framework places an obligation on all Participants to self-report to ASX if they become aware of any circumstances which may prevent them being able to continue their obligations as an ASX Clearing Participant
  - A PIRC is called upon an incident with a Participant becoming apparent
  - In the event of a potential default, the PIRC will refer the matter to the DMC
  - Under the Default Management Framework, ASX has the power to close out or hedge a Participant's open contracts in order to appropriately control the risk of the participant
- 
- Default management processes for both CCPs are documented on the ASX website at: [www.asx.com.au/services/clearing/default-management.htm](http://www.asx.com.au/services/clearing/default-management.htm)
  - The Rules that cover the default processes in each of the CCP's are:
    - ASX Clear Operating Rules & Procedures – Section 15 – Default
    - ASX Clear Operating Rules & Procedures – Section 8 – Emergency Assessment
    - ASX Clear (Futures) Operating Rules & Procedures – Part 7 – Procedures on Default
    - ASX Clear (Futures) OTC Rulebook – Section 6 – Default

# PFMI Disclosure Framework | Principle 13

## PFMI/FSS

### PFMI 13 – KEY CONSIDERATION 4

An FMI should involve its participants and other stakeholders in the testing and review of the FMI's default procedures, including any close out procedures. Such testing and review should be conducted at least annually and following material changes to the rules and procedures to ensure that they are practical and effective

*FSS 12.4*

A CCP should demonstrate that its default management procedures take appropriate account of interests in relevant jurisdictions and, in particular, any implications for pricing, liquidity and stability in relevant financial markets

*FSS 12.5*

## HOW ASX CENTRAL COUNTERPARTIES COMPLY

- Involvement in the testing and review of default procedures by Clearing Participants is not catered for, due to the confidential nature of, and real-time information discussed in default management fire drill processes
  - In the event of default by a non-OTC Clearing Participant, the default management fire drills procedures require the two default brokers authorised to close out positions on behalf of ASX to verify that they can accept the order formats provided by ASX
  - In the event of default by an OTC Clearing Participant, A Default Management Group (DMG) would be established, comprising representatives from each of the OTC Clearing Participant entities of ASX Clear (Futures). The DMG would provide advice on hedging and auctioning of the defaulting participant's portfolio
- 
- ASX have a documented Default Management Framework and comprehensive default management procedures

## PFMI Disclosure Framework | Principle 14

### PRINCIPLE 14 – SEGREGATION AND PORTABILITY:

A CCP should have rules and procedures that enable the segregation of positions of a participant's customers and the collateral provided to the CCP with respect to those positions

#### PFMI/FSS

##### PFMI 14 – KEY CONSIDERATION 1

A CCP should, at a minimum, have segregation and portability arrangements that effectively protect a participant's customers' positions and related collateral from the default or insolvency of that participant. If the CCP additionally offers protection of such customer positions and collateral against the concurrent default of the participant and a fellow customer, the CCP should take steps to ensure that such protection is effective

*FSS 13.1*

##### PFMI 14 – KEY CONSIDERATION 2

A CCP should employ an account structure that enables it readily to identify positions of a participant's customers and to segregate related collateral. A CCP should maintain customer positions and collateral in individual customer accounts or in omnibus customer accounts, or in omnibus customer accounts

*FSS 13.2*

#### HOW ASX CENTRAL COUNTERPARTIES COMPLY

- ASX Clear maintains a segregated account structure for its options and futures products which separates client positions from the participant's proprietary positions. For these products, clients are able to access individually segregated accounts that offer protection against the concurrent default of the participant and a fellow client. Under the Operating Rules, ASX Clear also has the power to transfer (port) participants' clients' positions and collateral without the need to seek approval from the participant's external administrator
- ASX is in the process of enhancing ASX Clear client asset protections to ensure they provide "materially equivalent protection of customer assets by alternative means" under FSS 13.2.10. These enhancements are being introduced in two stages:
  - Stage 1: In April 2014, ASX made amendments to the ASX Settlement Operating Rules to confirm that client stock in the Accumulation Account is maintained beneficially for the client and requiring accurate records to allow daily reconciliation of stock in the Accumulation Account. Amendments were also made to the ASX Clear Operating Rules to confirm that funds covering client purchases can only be withdrawn from the client trust account if the Participant has taken all steps required to register the stock into the client's name (subject to certain exceptions based on the Corporations Act)
  - Stage 2: New CHES processes and associated rule changes are expected to go live in May 2015. These changes will ensure that when client stock is transferred from the Accumulation Account or a Direct/ Sponsored HIN into the Settlement Account that funds representing the sale proceeds (net of brokerage) are paid into the client trust account or to the client on the same day the stock is transferred

- Refer to Key Consideration 1 above

## PFMI Disclosure Framework | Principle 14

### PRINCIPLE 14 – SEGREGATION AND PORTABILITY:

A CCP should have rules and procedures that enable the segregation of positions of a participant's customers and the collateral provided to the CCP with respect to those positions

#### PFMI/FSS

#### PFMI 14 – KEY CONSIDERATION 3

A CCP should structure its portability arrangements in a way that makes it highly likely that the positions and collateral of a defaulting participant's customers will be transferred to one or more other participants

FSS 13.3

#### HOW ASX CENTRAL COUNTERPARTIES COMPLY

- Under the Operating Rules, ASX Clear has the power to transfer (port) participants' clients' positions and collateral without the need to seek approval from the participant's external administrator in the event of a default. The availability of individually segregated client accounts for both options and futures supports the transfer of client positions and collateral to another participant in the event of a clearing participant default. Under individual client segregation, margin requirements are calculated on a gross basis for the positions held by each client. Accordingly, there should be sufficient collateral available to support the transfer of each client's positions to another clearing participant
- Individually segregated client clearing arrangements for OTC and futures transactions on ASX Clear (futures) are as follows:
  - Futures Client Clearing:
 

The Futures Client Clearing service (operational as at 14th July 2014) introduced an Individual Client Account (ICA) option which allows for an individual client's net position to be segregated from the positions of other clients and ASX's initial margin requirement for that client's position to be collected and accounted for by ASX within an operationally comingled client collateral account of the clearing participant. The positions and related initial margin value of clients that opt for the ICA are highly likely to be ported in the event of the clearing participant's default, subject to an alternate clearer being able and willing to accept the client's positions within prescribed timeframes
  - OTC Client Clearing:
 

ASX Clear (Futures) extended its existing OTC interest rate derivatives dealer clearing service to cover the clearing of OTC end client (e.g. buy-side) transactions. The OTC client clearing service makes use of the new individual client account structure (ICA) in ASX Clear (Futures) that allows for the segregation of individual client positions with related initial margin requirements managed within an operationally comingled client collateral account. The OTC service also facilitates the allocation of client trades executed bilaterally, through electronic execution facilities or via voice brokers to the clearing house from market standard interfaces (Markitwire in the first instance). The OTC service also supports cross margining of eligible ASX futures contracts and related OTC interest rate derivatives positions where a client uses ICAs for both OTC and futures positions at the same clearing participant. The OTC client clearing service became operational in April 2014 with cross margining functionality between OTC and ASX futures positions available from mid-July 2014 when the Futures Client Clearing service went live
  - Enhanced Protection:
 

ASX Clear (Futures) and ASX Clear will introduce enhancements to ASX's client clearing structures that will offer derivatives clients the choice of increased collateral protection. The enhancements will offer derivatives clients the choice of increased collateral protection. The enhancements will enable excess customer collateral to be held directly with the central counterparty and attributed to individual client accounts (ICA). The enhancements are scheduled to be

delivered in the second half of 2015. ASX is introducing the enhancements to comply with regulatory guidance of the RBA and in response to customer feedback.

Under ASX Clear (Futures), the account structure will facilitate collateral excess (collateral not utilised to cover the ICA initial margin requirement) to be calculated at an ICA level, based upon the cash/non-cash collateral (or total collateral) attributed to the ICA by the Clearing Participant. Clearing Participants will have the option (but not the obligation) to notify ASX Clear (Futures) of these collateral amounts, on behalf of the client. The account structure will also introduce a “tracking” capability, for lodgement of assets on behalf of an ICA, which identifies that asset as belonging to that particular client, in the books and records of the CCP

Under ASX Clear (ETOs), collateral excess is already recorded at the client account level, with the lodgement of client non-cash collateral into individual accounts already common practice. However, the enhancements will allow clearing participants to notify/ lodge excess cash collateral against the clients’ individual accounts

Client collateral will continue to be held in the pooled client collateral account of the clearing participant. The demand/ requirements for a full segregation account structure will be considered at a later date

### PFMI 14 – KEY CONSIDERATION 4

A CCP should disclose its rules, policies, and procedures relating to the segregation and portability of a participant’s customers’ positions and related collateral. In particular, the CCP should disclose whether customer collateral is protected on an individual or omnibus basis. In addition, a CCP should disclose any constraints, such as legal or operational constraints, that may impair its ability to segregate or port a participant’s customers’ positions and related collateral

*NO CORRESPONDING FSS*

#### ➤ ASX Clear (Futures):

- Chapters 4 and 7 of the Operating Rules for ASX Clear (Futures)
- Clearing brokers are required by the ASX Clear (Futures) Operating Rules to provide the following fact sheet to clients who have invested in, or are considering investing in, ASX 24 Exchange Traded Derivatives or OTC Interest Rate Derivatives: [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)
- The following fact sheet outlines the key features of the Client Protection Model that supports the Client Clearing Service offered by ASX Clear (Futures) [www.asx.com.au/documents/clearing/client-protection-model-fact-sheet.pdf](http://www.asx.com.au/documents/clearing/client-protection-model-fact-sheet.pdf)
- Detailed information relating to the ASX default management process is on the ASX website at [www.asx.com.au/services/clearing/default-management.htm](http://www.asx.com.au/services/clearing/default-management.htm)

#### ➤ ASX Clear:

- Current arrangements for segregation and portability are defined in chapters 10, 13, 15 and 17 of the ASX Clear Operating Rules and Procedures
- During 2013 and 2014, ASX publicly consulted stakeholders on segregation and portability arrangements for both derivatives and cash market transactions cleared in ASX Clear: [www.asx.com.au/documents/public-consultations/Derivatives\\_Account\\_Segregation\\_and\\_Portability.pdf](http://www.asx.com.au/documents/public-consultations/Derivatives_Account_Segregation_and_Portability.pdf)



## PFMI Disclosure Framework | Principle 15

### PRINCIPLE 15 – GENERAL BUSINESS RISK:

An FMI should identify, monitor and manage its general business risk and hold sufficient liquid net assets funded by equity to cover potential general business losses so that it can continue operations and services as a going concern if those losses materialise. Further, liquid net assets should at all times be sufficient to ensure a recovery or orderly wind-down of critical operations and services

#### PFMI/FSS

##### PFMI 15 – KEY CONSIDERATION 1

An FMI should have robust management and control systems to identify, monitor and manage general business risks, including losses from poor execution of business strategy, negative cash flows or unexpected and excessively large operating expenses

FSS 14.1

##### PFMI 15 – KEY CONSIDERATION 2

An FMI should hold liquid net assets funded by equity (such as common stock, disclosed reserves or other retained earnings) so that it can continue operations and services as a going concern if it incurs general business losses. The amount of liquid net assets funded by equity an FMI should hold should be determined by its general business risk profile and the length of time required to achieve a recovery or orderly wind-down, as appropriate, of its critical operations and services if such action is taken

FSS 14.2

#### HOW ASX CENTRAL COUNTERPARTIES COMPLY

- ASX's CCPs have robust management and control systems to identify, monitor and manage their general business risks
  - Business unit risk profiling is conducted twice yearly. Sources of business risk and their potential impact on operations and services are identified and assessed. Potential impacts on cash flow, liquidity and capital position are analysed
  - Annual financial planning and budgeting processes are in place. Major loss analysis is undertaken periodically. Capital forecasting and cash flow sensitivity analysis is undertaken and presented to the Capital & Liquidity Committee (CALCO) every quarter
- 
- ASX has set aside capital for operational and business risk across the two ASX Group CCPs if they incur general business losses. Since ASX has identified constraints to making business risk capital bankruptcy remote within the CCP, this capital is held at the ASX Group level to ensure that it cannot be applied to meet losses caused by a participant default. Each CCP has a separate allocation for business risk capital - \$15 million for ASX Clear and \$60 million for ASX Clear (Futures) - that is explicitly made available to the CCPs from ASX Limited
  - In determining the sufficiency of the operational and business risk capital set aside for ASX Clear and ASX Clear (Futures), ASX has estimated the capital required to cover six months of current operating expenses, plus that required to cover operational and legal risk, non-covered credit and counterparty credit risk, non-covered market risk, business risk and an additional capital buffer. It has calculated these components consistent with the methodology used by CCPs in the EU, under the European Regulation on OTC derivatives, central counterparties and trade repositories (EMIR)
  - ASX's CCP business/ operational risk capital is determined and reviewed by CALCO periodically and monitored quarterly
  - Annual financial forecasts, budgets, major loss scenario assessments etc. are undertaken to ensure the CCPs have adequate liquid assets to continue as a going concern should business risks eventuate

## PFMI Disclosure Framework | Principle 15

### PFMI/FSS

#### PFMI 15 – KEY CONSIDERATION 3

An FMI should maintain a viable recovery or orderly wind-down plan and should hold sufficient liquid net assets funded by equity to implement this plan.

At a minimum, an FMI should hold liquid net assets funded by equity equal to at least six months of current operating expenses. These assets are in addition to resources held to cover participant defaults or other risks covered under the financial resources principles. However, equity held under international risk-based capital standards can be included where relevant and appropriate to avoid duplicate capital requirements

*FSS 14.3*

#### PFMI 15 – KEY CONSIDERATION 4

Assets held to cover general business risk should be of high quality and sufficiently liquid in order to allow the FMI to meet its current and projected operating expenses under a range of scenarios, including in adverse market conditions

*FSS 14.4*

### HOW ASX CENTRAL COUNTERPARTIES COMPLY

- The CCPs have developed recovery plans based on existing powers under their operating rules. ASX has commenced work to develop a more comprehensive recovery plan supported by tools to fully address uncovered credit losses and liquidity shortfalls, and replenish financial resources. ASX's proposed recovery approach consistent with CPMI-IOSCO guidance on FMI recovery planning released in October 2014. ASX undertook public consultation on its proposed recovery approach for participant default in October 2014. Following consideration of the responses to consultation, ASX expects to consult on amendments to the operating rules of the ASX CCPs to implement new recovery tools in early Q22015 with a view to implementation of the new rules in mid-2015, and subsequent updating of the recovery plans to reflect those new rules
  - General business risk capital is held on behalf of the CCPs at the ASX Group level to ensure that it cannot be applied to meet losses caused by a participant default. A group-wide capital buffer provides protection to allocated business risk capital against potential losses sustained elsewhere in the group. This arrangement has been included in the ASX Group Support Agreement
  - The amount of operational and business risk capital set aside for the CCPs has been estimated as the capital required to cover six months of current operating expenses, with an additional buffer to allow for future growth. These funds are also sufficient to cover the estimated largest general business loss that the CCPs may incur. Loss scenarios considered include closure due to external events such as pandemics, the fraudulent redirection of payments, or the unauthorised transfer of funds
- 
- The assets held to cover general business risks are liquid net assets funded by equity and reserves
  - The liquid net assets comprise at call and fixed term bank deposits, bank bills and negotiable certificates of deposits
  - The ASX investment mandates, which are reviewed annually by CALCO and approved by the Board, set out allowed asset types and liquidity limits. Compliance with the mandates is reviewed quarterly by CALCO and monitored daily by CRM

## PFMI Disclosure Framework | Principle 15

### PFMI/FSS

#### PFMI 15 – KEY CONSIDERATION 5

An FMI should maintain a viable plan for raising additional equity should its equity fall close to or below the amount needed. This plan should be approved by the board of directors and updated regularly

*FSS 14.5*

### HOW ASX CENTRAL COUNTERPARTIES COMPLY

- The ASX Limited Board monitors the on-going capital adequacy and requirements of the Group and, when needed, will determine the most appropriate means of raising additional capital after due consideration of prevailing market conditions and available alternative financing mechanisms. The ASX Limited pro rata accelerated renounceable entitlement offer in July 2013 is an example of capital raising by the ASX Group with proceeds being applied to the CS facilities

## PFMI Disclosure Framework | Principle 16

### PRINCIPLE 16 – CUSTODY AND INVESTMENT RISKS:

An FMI should safeguard its own and its participants' assets and minimise the risk of loss on and delay in access to these assets. An FMI's investments should be in instruments with minimal credit, market and liquidity risks

#### PFMI/FSS

##### PFMI 16 – KEY CONSIDERATION 1

An FMI should hold its own and its participants' assets at supervised and regulated entities that have robust accounting practices, safekeeping procedures and internal controls that fully protect these assets

*FSS 15.1*

##### PFMI 16 – KEY CONSIDERATION 2

An FMI should have prompt access to its assets and the assets provided by participants, when required

*FSS 15.2*

##### PFMI 16 – KEY CONSIDERATION 3

An FMI should evaluate and understand its exposures to its custodian banks, taking into account the full scope of its relationships with each

*FSS 15.3*

#### HOW ASX CENTRAL COUNTERPARTIES COMPLY

- The assets of the CCPs and their participants are administered and held within the ASX Group. Intragroup arrangements allow the CCPs to fully understand the nature of their risk exposure to ASXCC and other group entities. This exposure is managed within the context of ASX's overall Clearing Risk Policy Framework. ASX has robust accounting practices, safekeeping procedures and internal controls to protect its own and its participants' assets
- ASX's CCPs' Operating Rules and Procedures define how CCPs use lodged collateral. Cash investments, including cash collateral, clearing participant contributions and shareholder funds, are controlled by ASXCC, of which the CCPs are subsidiaries. ASXCC makes its investments in accordance with its Investment Mandate and ASX's Investment Policy, which together define investment objectives, investment specifications, and audit and maintenance of the policy
- ASXCC's Investment Mandate requires that a portion of its portfolio be held in liquid asset form to cover liquidity risks from both general business risks and risks related to CCP activities
- ASX's CCPs do not use the services of external custodians

## PFMI Disclosure Framework | Principle 16

### PFMI/FSS

#### PFMI 16 – KEY CONSIDERATION 4

An FMI's investment strategy should be consistent with its overall risk management strategy and fully disclosed to its participants, and investments should be secured by, or be claims on, high-quality obligors. These investments should allow for quick liquidation with little, if any, adverse price effect

*FSS 15.4*

### HOW ASX CENTRAL COUNTERPARTIES COMPLY

- ASXCC is the controlling entity for the investments of both CCPs. ASXCC invests funds in accordance with a defined treasury investment policy and endorsed by the Clearing Boards. The treasury investment policy, articulates the basis for ASX Clear's mitigation of investment-related credit, market and liquidity risks
- The primary objective of the investment mandate is to ensure that the investment portfolio is made up of highly liquid financial instruments with a high credit quality and low levels of market risk. This is driven by the CCPs' requirement to have timely, certain and ease of access to funds at all times, including in the event of clearing participant default. This objective is achieved by setting appropriate limits and restrictions on investment products and on the amount and source of credit, liquidity and market risk exposures. All investments are purchased by ASXCC with the intent to hold until maturity, however investments may be sold as liquidity or other needs arise, and so will be deemed "available-for-sale"
- The performance of the investment portfolio within the parameters of the investment policy is closely monitored by ASXCC, with trigger points to automatically escalate potential issues to the Chief Risk Officer before actual limits are reached

## PFMI Disclosure Framework | Principle 17

### PRINCIPLE 17 – OPERATIONAL RISK:

An FMI should identify the plausible sources of operational risk, both internal and external, and mitigate their impact through the use of appropriate systems, policies, procedures and controls. Systems should be designed to ensure a high degree of security and operational reliability and should have adequate, scalable capacity. Business continuity management should aim for timely recovery of operations and fulfilment of the FMI's obligations, including in the event of a wide-scale or major disruption

#### PFMI/FSS

#### PFMI 17 – KEY CONSIDERATION 1

An FMI should establish a robust operational risk management framework with appropriate systems, policies, procedures and controls to identify, monitor and manage operational risks

FSS 16.1

#### PFMI 17 – KEY CONSIDERATION 2

An FMI's board of directors should clearly define the roles and responsibilities for addressing operational risk and should endorse the FMI's operational risk management framework. Systems, operational policies, procedures and controls should be reviewed, audited and tested periodically and after significant changes

FSS 16.2

#### HOW ASX CENTRAL COUNTERPARTIES COMPLY

- ASX's CCPs adopt ASX's framework for risk management which is described in its Enterprise Risk Management Policy. This policy outlines the overall risk environment in the ASX Group; the objectives of risk management policies; the process by which risks are identified and assessed; the controls in place to detect and mitigate risks; and how risks are monitored and communicated. ASX's stated tolerance for financial, operational, legal and regulatory risks is 'very low'
  - Specific policies are in place across key operational risks. Systems, procedures and controls are in place to support operational processes
  - The CCPs integrate commercial standards into their operational risk management frameworks. For instance, the risk management framework is regularly assessed against the international standard ISO 31000 Risk Management – Principles and Guidelines. The Business Continuity Framework has been prepared with reference to the Business Continuity Institute's Good Practice Guidelines, the British Standard (BS), and ISO International Standard on business continuity. The ISO Information Security Management System (ISMS) standard has also been integrated into the technology risk management framework and an annual comparative assessment is completed. The ASX internal compliance framework has been benchmarked to the AS Australian Standard Compliance Program. The ASX Fraud Control Policy references AS Australian Standard on Fraud and Corruption Control
- 
- The ASX Board has endorsed the the ASX Enterprise Risk Management Policy and framework which assigns specific risk responsibilities across the ASX Group, including to the ASX Limited Board of Directors, the Audit and Risk Committee, the Enterprise Risk Management Committee, the General Manager, Enterprise Risk and managers of individual departments. The Clearing Boards oversee the ASX CCP operational risks as per carve out in the ARC Charter
  - The Enterprise Risk Management Committee, comprising executives from across the departments, is responsible for enterprise risk management policy and reviewing controls, processes and procedures to identify and manage risks. This committee is also responsible for formally approving significant operational risk policies prepared by individual departments
  - Individual departments are responsible for: identifying business-specific risks; applying controls; maintaining risk management systems; reporting on the effectiveness of risk controls; and implementing enhancements and taking remedial action as appropriate. Each department is required to maintain a record of its risk profile, reviewing this on a six-monthly basis and updating as appropriate. Policies are formally reviewed periodically. More frequent reviews are undertaken where there are potential changes to technology, legal or regulatory requirements, or business drivers
  - Policies and procedures are the subject of internal and external review. ASX's Internal Audit department routinely monitors compliance with operational policy, reporting to the Audit and Risk Committee on a quarterly basis. Audit findings may prompt a review of policy, which would be conducted in consultation with key stakeholders. Technology-related security policy is considered by external auditors annually

# PFMI Disclosure Framework | Principle 17

## PFMI/FSS

### PFMI 17 – KEY CONSIDERATION 3

An FMI should have clearly defined operational reliability objectives and should have policies in place that are designed to achieve those objectives

*FSS 16.3*

### PFMI 17 – KEY CONSIDERATION 4

An FMI should ensure that it has scalable capacity adequate to handle increasing stress volumes and to achieve its service-level objectives

*NO CORRESPONDING FSS*

### PFMI 17 – KEY CONSIDERATION 5

An FMI should have comprehensive physical and information security policies that address all potential vulnerabilities and threats

*NO CORRESPONDING FSS*

## HOW ASX CENTRAL COUNTERPARTIES COMPLY

- The ASX Project Framework and separate Change Management Procedures include comprehensive checks to ensure changes are implemented effectively
- Clearly defined operational objectives are in place. The monthly Key Indicators Report summaries performance against availability measures and other such as critical system capacity and description of any incidents. The Monthly Critical System capacity report includes an assessment of the headroom remaining on peak values for each critical system
- The actual capacity and performance of CCP systems is tested on an on-going basis. A required level of redundant capacity is taken into account. There are tools/controls in place that are used to monitor, review and test the capacity and performance of the systems
- The system's performance is reported regularly to the CS Boards and to the RBA every quarter
- The CCPs' physical and information security policies are reviewed and assessed annually. The ASX Information System Security Policy recognises that employees, contractors and consultants have an obligation and a significant role to play in helping protect the information systems resources of ASX
- Availability targets are documented and defined formally for critical services. The CCP systems are required to meet a minimum availability target of 99.8 per cent
- ASX's CCPs are designed to have scalable capacity which is maintained at levels to support increasing volumes and service availability objectives. The guideline for target capacity is to maintain 50% over peak recorded daily volumes, with the ability to increase to 100% over peak within six months. Monthly reviews of current and projected capacity requirements are undertaken
- The ASX Employee Physical Security Policy outlines CCP requirements in regards to the protection of people, information and other assets and to ensure security risks from crime, activism and terrorism are minimised
- The ASX Information Security Policy Framework includes a range of policies designed to safeguard the ASX technology environment against threats which may disable or affect its effectiveness. Policies and standards cover firewalls, encryption, virus protection, passwords, removable media, email, internet and other risks



## PFMI Disclosure Framework | Principle 17

### PFMI/FSS

#### PFMI 17 – KEY CONSIDERATION 6

An FMI should have a business continuity plan that addresses events posing a significant risk of disrupting operations, including events that could cause a wide-scale or major disruption. The plan should incorporate the use of a secondary site and should be designed to ensure that critical information technology systems can resume operations within two hours following disruptive events. The plan should be designed to enable the FMI to complete settlement by the end of the day of the disruption, even in case of extreme circumstances. The FMI should regularly test these arrangements

*NO CORRESPONDING FSS*

A CCP should ensure that it can reliably access and utilise well-trained and competent personnel, as well as technical and other resources. These arrangements should be designed to ensure that all key systems are operated securely and reliably in all circumstances, including where a related body becomes subject to external administration

*FSS 16.4*

### HOW ASX CENTRAL COUNTERPARTIES COMPLY

- ASX's CCPs maintain business continuity plans detailing the operational responses to a facility disruption. The plans identify and address events that pose a significant risk of disrupting operations, e.g. events such as technology failure, staff unavailability, pandemic, greater CBD inaccessibility and primary site & systems unusable. These plans are updated annually
  - ASX maintains both primary and backup data centres, and its business continuity arrangements are designed to achieve failover to the backup site data centre within two hours. Front-end servers handling communications with participants are configured to provide automatic failover across sites. Failover of the more critical data servers will generally take place within an hour under the control of management; however, the disruption to participants in such a case is reduced due to the high degree of redundancy in the front-end system components, which in most circumstances will maintain communications with external systems and queue transactions until the data servers are reactivated
  - The CCPs regularly test their business continuity arrangements. Dual site operational teams across the primary and alternate secondary operations sites effectively test backup operational processes on a continuous basis. For those teams not located across both sites, connectivity and procedural testing of the backup secondary site are performed. Live tests, where clearing services are provided in real time from the alternate backup data centre site, have been conducted on a 1-2 year cycle and are moving to yearly
- 
- The CCPs employ sufficient well-qualified personnel. Appropriate human resource policies are implemented to mitigate the effects of high rates of staff turnover and key-person risk. Examples of policies in place are: Workplace Health & Safety, Recruitment, Secondment & Transfers, Ethics & Conduct and Security – Workplace Surveillance and Information Security
  - Within the ASX group structure, most operational resources are provided by ASX Operations Limited, a subsidiary of ASX Limited, under a contractual Support Agreement. In the event that ASX Operations Limited became subject to external administration, to the extent permissible by law, provisions within the Support Agreement provide for the CCPs to retain the use of operational resources
  - Major projects are overseen by the Enterprise Portfolio Steering Committee (EPSC), which is comprised of representatives of the Group Executive. The EPSC is tasked with ensuring that ASX has sufficient well-qualified project personnel. Project management of major projects is undertaken by the Project Management Office (PMO). For projects affecting core systems the PMO rates projects to ensure that they receive appropriate access to resources

# PFMI Disclosure Framework | Principle 17

## PFMI/FSS

### PFMI 17 – KEY CONSIDERATION 7

An FMI should identify, monitor and manage the risks that key participants, other FMIs and service and utility providers might pose to its operations. In addition, an FMI should identify, monitor and manage the risks its operations might pose to other FMIs

*FSS 16.5*

A participant of a CCP should have complementary operational and business continuity arrangements that are appropriate to the nature and size of the business undertaken by that participant. The CCP's rules and procedures should clearly specify operational requirements for participants

*FSS 16.6*

A CCP should have a business continuity plan that addresses events posing a significant risk of disrupting operations, including events that could cause a wide-scale or major disruption. The plan should incorporate the use of a secondary site and should be designed to ensure that critical information technology systems can resume operations within two hours following disruptive events. Business continuity arrangements should provide appropriate redundancy of critical systems and appropriate mitigants for data loss. The business continuity plan should be designed to enable the CCP to facilitate settlement by the end of the day of the disruption, even in case of extreme circumstances. The CCP should regularly test these arrangements

*FSS 16.7*

## HOW ASX CENTRAL COUNTERPARTIES COMPLY

- CCP six monthly risk profiling considered the risk they pose to external parties and vice-versa
  - The CCPs inform the RBA of major risks and dependencies as part of their active engagement programme
  - CCP services and operational support are provided to participants of ASX Clear (Futures) that clear NZ dollar-denominated products as part of normal business procedures
- 
- The CCPs consider Business Continuity Plan (BCP) arrangements for their participants as part of the participant's admission and on-going operating rule requirements. Clearing Participants are required to have arrangements which are comparable to the nature and size of their business as a participant. As a guide, Clearing Participants should be in a position to be able to continue operating their clearing functions within 2-4 hours after a disruption
  - The CCPs' Operating Rules have criteria for critical participants which specify operational requirements
- 
- CCP BCPs are in place, and include the recovery and resumption of critical operations within 2 hours following an incident. The BCPs identify and address events that pose a significant risk of disrupting operations, e.g. events such as technology failure, staff unavailability, pandemic, greater CBD inaccessibility and primary site and systems being unable to be used
  - A 3-site model is in place with separate secondary sites for operations recovery and the data centre
  - Technology recovery arrangements include inter- and intra-site system redundancy and data recovery
  - Comprehensive Business Continuity Management (BCM) testing is conducted every 1-2 years
  - Participants are involved in testing each time the CCPs roll out a major change or new system
  - Connectivity testing with the clients is undertaken regularly. An external testing environment is in place

## PFMI Disclosure Framework | Principle 17

### PFMI/FSS

A CCP should consider making contingency testing compulsory for the largest participants to ensure they are operationally reliable and have in place tested contingency arrangements to deal with a range of operational stress scenarios that may include impaired access to the CCP

*FSS 16.8*

A CCP that relies upon, outsources some of its operations to, or has other dependencies with a related body, another FMI or a third-party service provider (for example, data processing and information systems management) should ensure that those operations meet the resilience, security and operational performance requirements of these CCP Standards and equivalent requirements of any other jurisdictions in which it operates

*FSS 16.9*

### HOW ASX CENTRAL COUNTERPARTIES COMPLY

- The ASX Clear Operating Rules include BCP testing requirements. These are assessed at the time of admission and periodically as part of ASX Compliance monitoring and enforcement procedures. Clearing Participants are required to conduct annual BCM testing
  - The Operating Rules and Procedures for both CCPs require participants to maintain adequate business continuity arrangements that are appropriate to the nature and size of their business as a participant. The guidance issued by ASX on these obligations includes guidance that a participant should test its disaster recovery and business continuity arrangements at least once annually and as soon as practicable following any material change to its business or its disaster recovery business continuity arrangements. These arrangements are reviewed as part of the participant admission process
- 
- ASX has developed a set of standard clauses for inclusion in contracts with third-party critical service providers to the CCPs. The clauses seek to ensure that the agreements meet the resilience, security and operational performance requirements of the FSS
  - In particular, the clauses allow the RBA to gather information from the service provider about the operation of critical functions and, in the event that the RBA concludes that the terms of the service provider agreement do not meet FSS requirements, the clauses require the service provider to negotiate acceptable new terms with ASX
  - Furthermore, the standard clauses allow the RBA to take steps to remedy a breach to a contract with a critical service provider to the CCPs (or negotiate a replacement contract) if the contract may be terminated as a consequence of insolvency of an ASX entity
  - ASX is applying these clauses to all new agreements with critical service providers, and has incorporated them into all of its key existing service agreements

## PFMI Disclosure Framework | Principle 17

### PFMI/FSS

All of a CCP's outsourcing or critical service provision arrangements should provide rights of access to the Reserve Bank to obtain sufficient information regarding the service provider's operation of any critical functions provided. A CCP should consult with the Reserve Bank prior to entering into an outsourcing or service provision arrangement for critical functions

*FSS 16.10*

A CCP should organise its operations, including any outsourcing or critical service provision arrangements, in such a way as to ensure continuity of service in a crisis and to facilitate effective crisis management actions by the Reserve Bank or other relevant authorities. These arrangements should be commensurate with the nature and scale of the CCP's operations

*FSS 16.11*

### HOW ASX CENTRAL COUNTERPARTIES COMPLY

➤ ASX's standard clauses for agreements with critical service providers to the CCPs require the provider to grant reasonable access to the RBA in respect of information relating to its operation of a critical function. ASX is applying these clauses to all new agreements with critical service providers to the CCPs, and has incorporated them into agreements with key existing critical service providers to the CCPs

➤ Standard clauses in the CCP agreements with critical service providers require that those providers give the RBA notice of any intention to terminate the agreement as a consequence of CCP failure to pay fees, or in the event of the insolvency of a CCP or any other relevant ASX entity. This is intended to give the RBA an opportunity to take action to remedy the breach on behalf of the CCP or take other steps to ensure service provision

➤ The CCP's arrangements to ensure continuity of operations in the event of a crisis will be aligned to the new resolution regime for FMIs once introduced to Australian law

# PFMI Disclosure Framework | Principle 18

## PRINCIPLE 18 – ACCESS AND PARTICIPATION REQUIREMENTS:

An FMI should have objective, risk-based and publicly disclosed criteria for participation, which permit fair and open access

### PFMI/FSS

#### PFMI 18 – KEY CONSIDERATION 1

An FMI should allow for fair and open access to its services, including by direct and, where relevant, indirect participants and other FMIs, based on reasonable risk-related participation requirements

FSS 17.1

#### PFMI 18 – KEY CONSIDERATION 2

An FMI's participation requirements should be justified in terms of the safety and efficiency of the FMI and the markets it serves, be tailored to and commensurate with the FMI's specific risks, and be publicly disclosed. Subject to maintaining acceptable risk control standards, an FMI should endeavour to set requirements that have the least restrictive impact on access that circumstances permit

FSS 17.2

### HOW ASX CENTRAL COUNTERPARTIES COMPLY

- In consultation with industry stakeholders and Australian regulators, ASX has developed a [Code of Practice](#) (the Code) for the clearing and settlement of cash equities (ASX Clear and ASX Settlement only) in Australia which commenced operation on 9 August 2013. Under the Code, ASX commits, among other things, to transparent and non-discriminatory terms of access to cash equities clearing and settlement services. Refer to section 4 of the Code for further details regarding standard access to these services
  - The document: "A guide to becoming an ASX Participant" details the range of Participation choices available for prospective Participants, and can be found on the ASX website at: [https://www.asxonline.com/intradoc-cgi/groups/public/documents/participantapplicationkitsfe/asx\\_022625.pdf](https://www.asxonline.com/intradoc-cgi/groups/public/documents/participantapplicationkitsfe/asx_022625.pdf). Note: the risk-related participants' requirements are located on Page 24, 1.8 of Capital Requirements
  - Relevant Operating Rule oversight can be found at: [www.asx.com.au/regulation/rules-guidance-notes-and-waivers.htm](http://www.asx.com.au/regulation/rules-guidance-notes-and-waivers.htm)
    - Refer ASX Clear:
      - » Section 3: Participation in the Clearing Facility
      - » Section 4: Rights and Obligations of Participants
      - » Section 5: Risk Management Capital Requirements
    - Refer ASX Clear (Futures):
      - » Part 2: General
- 
- The document: "A guide to becoming an ASX Participant" details the range of Participation choices available for prospective Participants, and can be found on the ASX website at: [https://www.asxonline.com/intradoc-cgi/groups/public/documents/participantapplicationkitsfe/asx\\_022625.pdf](https://www.asxonline.com/intradoc-cgi/groups/public/documents/participantapplicationkitsfe/asx_022625.pdf). Note: the risk-related participants' requirements are located on Page 24, 1.8 of Capital Requirements
  - Relevant Operating Rule oversight can be found at [www.asx.com.au/regulation/rules-guidance-notes-and-waivers.htm](http://www.asx.com.au/regulation/rules-guidance-notes-and-waivers.htm)
    - Refer ASX Clear:
      - » Section 3: Participation in the Clearing Facility
      - » Section 4: Rights and Obligations of Participants
      - » Section 5: Risk Management Capital Requirements
    - Refer ASX Clear (Futures):
      - » Part 2: General

## PFMI Disclosure Framework | Principle 18

### PFMI/FSS

#### PFMI 18 – KEY CONSIDERATION 3

An FMI should monitor compliance with its participation requirements on an ongoing basis and have clearly defined and publicly disclosed procedures for facilitating the suspension and orderly exit of a participant that breaches, or no longer meets, the participation requirements

FSS 17.3

### HOW ASX CENTRAL COUNTERPARTIES COMPLY

#### ➤ Relevant documents which are disclosed on the ASX website include:

- Monitoring and Enforcing Compliance:
  - » Monitoring: [www.asx.com.au/documents/about/operating-rules-monitoring.pdf](http://www.asx.com.au/documents/about/operating-rules-monitoring.pdf)
  - » Enforcing: [www.asx.com.au/documents/about/operating-rules-enforcement.pdf](http://www.asx.com.au/documents/about/operating-rules-enforcement.pdf)

#### ➤ Relevant Operating Rule oversight can be found at:

[www.asx.com.au/regulation/rules-guidance-notes-and-waivers.htm](http://www.asx.com.au/regulation/rules-guidance-notes-and-waivers.htm)

- Refer ASX Clear: Section 15
- Refer ASX Clear (Futures): Part 7

#### ➤ The Counterparty Risk Assessment unit reviews financial information provided by Participants to monitor their compliance with the relevant capital requirements. Participants provide financial information via monthly, annual, ad hoc and summary returns. The Counterparty Risk Assessment unit is also responsible for developing and monitoring the capital regimes that Clearing Participants must comply with. This includes developing the policy framework and reporting mechanisms designed to ensure that the financial strength of Participants is measured and monitored on a regular basis

# PFMI Disclosure Framework | Principle 19

## PRINCIPLE 19 – TIERED PARTICIPATION ARRANGEMENTS:

An FMI should identify, monitor and manage the material risks to the FMI arising from tiered participation arrangements

### PFMI/FSS

#### PFMI 19 – KEY CONSIDERATION 1

An FMI should ensure that its rules, procedures and agreements allow it to gather basic information about indirect participation in order to identify, monitor and manage any material risks to the FMI arising from such tiered participation arrangements

*FSS 18.1*

#### PFMI 19 – KEY CONSIDERATION 2

An FMI should identify material dependencies between direct and indirect participants that might affect the FMI

*FSS 18.2*

### HOW ASX CENTRAL COUNTERPARTIES COMPLY

- Under the capital monitoring provisions of the ASX operating rule framework, ASX gathers information on all activities conducted by the Participants
  - The ASX operating rule framework allows ASX to request information on any activities covered under the ASX operating rule framework
- 
- ASX monitors all Clearing Participants' material counterparty risk exposures
  - For ASX Clear (Futures), ASX Compliance monitors concentrations at the account level through the Daily Beneficial Ownership Report (DBOR). The Operating Rules require each participant to provide the CCP with the name and address of the beneficial holder of each open position, on a daily basis
  - For ASX Clear (Futures), all expiry contracts are monitored by a committee comprising of ASX Compliance, ASX Operations, ASX Business Development and ASX Legal to ensure there are no concentration or delivery issues
  - For ASX Clear, concentration in Exchange Traded Options (ETOs) is monitored as part of the Clearing Risk Management concentration monitoring. This includes:
    - Disproportionate client risk relative to other client accounts for the same Clearing Participant;
    - Portfolios dominated by a particular product; and,
    - Large percentage holdings in a particular market.
  - For ASX Clear, the concentration in cash equities is only monitored at the Participant level as positions are only recorded at the Participant "House Portfolio" level



## PFMI Disclosure Framework | Principle 19

### PFMI/FSS

#### PFMI 19 – KEY CONSIDERATION 3

An FMI should identify indirect participants responsible for a significant proportion of transactions processed by the FMI and indirect participants whose transaction volumes or values are large relative to the capacity of the direct participants through which they access the FMI in order to manage the risks arising from these transactions

FSS 18.3

#### PFMI 19 – KEY CONSIDERATION 4

An FMI should regularly review risks arising from tiered participation arrangements and should take mitigating action when appropriate

FSS 18.4

### HOW ASX CENTRAL COUNTERPARTIES COMPLY

- ASX monitors all Clearing Participants' material counterparty risk exposures
  - For ASX Clear (Futures), ASX Compliance monitors concentrations at the account level through the DBOR
  - For ASX Clear (Futures), all expiry contracts are monitored by a committee comprising of ASX Compliance, ASX Operations, ASX Clearing Risk Management, ASX Business Development and ASX Legal to ensure there are no concentration or delivery issues
  - For ASX Clear, concentration in ETOs is monitored as part of the Clearing Risk Management concentration monitoring
  - For ASX Clear, the concentration in cash equities is only monitored at the Participant level as positions are only recorded at the Participant "House Portfolio" level
  - The CCPs meet with Clearing Participants on an annual basis to discuss and encourage Clearing Participants to ensure that they have adequate risk management processes and controls, including the ability to assess the impact of new business against their Stress Test Exposure Limit and Capital Based Position Limit and the impact on mark to market movements against their existing house and client positions
- 
- ASX monitors all Clearing Participants' material counterparty risk exposures
  - For ASX Clear (Futures), ASX Compliance monitors concentrations at the account level through the DBOR
  - For ASX Clear (Futures), all open positions in expiry contracts are monitored by ASX Compliance and, for major contracts, by a committee comprising of ASX Compliance, ASX Operations, ASX Derivatives and OTC Markets team and ASX Legal to ensure there are no concentration or delivery issues
  - For ASX Clear, concentration in ETOs is monitored as part of the Clearing Risk Management concentration monitoring
  - For ASX Clear, the concentration in cash equities is only monitored at the Participant level as positions are only recorded at the Participant "House Portfolio" level
  - If an issue is identified via any of the monitoring, then the CCP will contact the Clearing Participant to obtain a better understanding of the risk. If not satisfied, the CCP has the right to call for Additional Initial Margins to cover the exposure or to place restrictions on their admission regarding the ability to open new positions

## PFMI Disclosure Framework | Principle 20

### PRINCIPLE 20 – FMI LINKS:

An FMI that establishes a link with one or more FMIs should identify, monitor and manage link-related risks

#### PFMI/FSS

##### PFMI 20 – KEY CONSIDERATION 1

Before entering into a link arrangement, and on an ongoing basis once the link is established, an FMI should identify, monitor and manage all potential sources of risk arising from the link arrangement. Link arrangements should be designed such that each FMI is able to observe the other PFMI

FSS 19.1

##### PFMI 20 – KEY CONSIDERATION 2

A link should have a well-founded legal basis, in all relevant jurisdictions, that supports its design and provides adequate protection to the FMIs involved in the link

FSS 19.2

#### HOW ASX CENTRAL COUNTERPARTIES COMPLY

- The following links exist between ASX's CCPs and other FMIs:
  - ASX Clear and ASX Settlement, for the settlement of financial products;
  - ASX Clear and Austraclear, for margin payments in AUD;
  - ASX Clear (Futures) and Austraclear, for AUD fund transfers and lodgement of AUD-denominated non-cash collateral; and,
  - ASX Clear (Futures) and NZ Clear, for the settlement of NZ dollar payments
- The CCPs' links to ASX Settlement and Austraclear are subject to the operational risk management framework that exists for all the ASX Clearing and Settlement facilities. The framework addresses operational risks associated with software, infrastructure or network failures and manual processing errors. Incident reports are required for all significant technical or operational incidents and include, in the assessment, mitigating actions to reduce the risk of reoccurrence. In addition, a risk profile assessment is also prepared for the Audit and Risk Committee every six months, and an independent system-controls audit is conducted annually
- The link from ASX Clear (Futures) to NZ Clear is limited by the small size of NZD margin requirements. NZ Clear is owned, operated and overseen by the Reserve Bank of New Zealand. Any operational issues that arise in NZ Clear are notified to ASX Clear (Futures). NZ Clear has the ability to perform transactions on behalf of ASX Clear (Futures) in the event of an operational disruption to the link arrangements of ASX Clear (Futures). ASX Clear (Futures) also has contingency arrangements that allow for late payment of margin on New Zealand futures products via Austraclear in AUD if required
- All links have a well-founded legal basis supported by contractual arrangements which include, where applicable, operating rules that establish the framework for participation in the FMI or the provision of settlement instructions from one FMI to another

# PFMI Disclosure Framework | Principle 20

## PFMI/FSS

## HOW ASX CENTRAL COUNTERPARTIES COMPLY

### PFMI 20 – KEY CONSIDERATION 3

Linked CSDs should measure, monitor, and manage the credit and liquidity risks arising from each other. Any credit extensions between CSDs should be covered fully with high quality collateral and be subject to limits

*NO CORRESPONDING FSS*

↗ Noted

### PFMI 20 – KEY CONSIDERATION 4

Provisional transfers of securities between linked CSDs should be prohibited or, at a minimum, the retransfer of provisionally transferred securities should be prohibited prior to the transfer becoming final

*NO CORRESPONDING FSS*

↗ Noted

### PFMI 20 – KEY CONSIDERATION 5

An investor CSD should only establish a link with an issuer CSD if the arrangement provides a high level of protection for the rights of the investor CSD's participants

*NO CORRESPONDING FSS*

↗ Noted

### PFMI 20 – KEY CONSIDERATION 6

An investor CSD that uses an intermediary to operate a link with an issuer CSD should measure, monitor and manage the additional risks (including custody, credit, legal and operational risks) arising from the use of the intermediary

*NO CORRESPONDING FSS*

↗ Noted

# PFMI Disclosure Framework | Principle 20

## PFMI/FSS

Where relevant to its operations in Australia, a CCP should consult with the Reserve Bank prior to entering into a link arrangement with another FMI

*FSS 19.3*

### PFMI 20 – KEY CONSIDERATION 7

Before entering into a link with another CCP, a CCP should identify and manage the potential spillover effects from the default of the linked CCP. If a link has three or more CCPs, each CCP should identify, assess and manage the risks of the collective link arrangement

*FSS 19.4*

### PFMI 20 – KEY CONSIDERATION 8

Each CCP in a CCP link arrangement should be able to cover, at least on a daily basis, its current and potential future exposures to the linked CCP and its participants, if any, fully with a high degree of confidence without reducing the CCP's ability to fulfil its obligations to its own participants at any time

*FSS 19.5*

### PFMI 20 – KEY CONSIDERATION 9

A TR should carefully assess the additional operational risks related to its links to ensure the scalability and reliability of IT and related resources

*NO CORRESPONDING FSS*

## HOW ASX CENTRAL COUNTERPARTIES COMPLY

➤ Noted

➤ Noted

Applicable to Trade Repositories only

# PFMI Disclosure Framework | Principle 21

## PRINCIPLE 21 – EFFICIENCY AND EFFECTIVENESS:

An FMI should be efficient and effective in meeting the requirements of its participants and the markets it serves

### PFMI/FSS

#### PFMI 21 – KEY CONSIDERATION 1

An FMI should be designed to meet the needs of its participants and the markets it serves, in particular, with regard to choice of a clearing and settlement arrangement; operating structure; scope of products cleared, settled, or recorded; and use of technology and procedures

*NO CORRESPONDING FSS*

#### PFMI 21 – KEY CONSIDERATION 2

An FMI should have clearly defined goals and objectives that are measurable and achievable, such as in the areas of minimum service levels, risk management expectations, and business priorities

*NO CORRESPONDING FSS*

#### PFMI 21 – KEY CONSIDERATION 3

An FMI should have established mechanisms for the regular review of its efficiency and effectiveness

*NO CORRESPONDING FSS*

### HOW ASX CENTRAL COUNTERPARTIES COMPLY

- ASX provides a range of Participation choices to suit the market and tailors the application process and arrangements dependant on the products and markets available. Refer to [https://www.asxonline.com/intradoc-cgi/groups/public/documents/participantapplicationkitsfe/asx\\_022625.pdf](https://www.asxonline.com/intradoc-cgi/groups/public/documents/participantapplicationkitsfe/asx_022625.pdf)
- Commencing in FY14, the ASX Clear Code of Practice Business Committee and Forum for ASX Clear and the Risk and Product Committees for ASX Clear (Futures) will provide input to the Clearing Boards on enhancement to services

In respect of each of the FMI:

- Operational targets – ASX has availability targets for critical systems which have been set and are monitored and reported to relevant governance committees including the Audit and Risk Committee and Clearing Boards on a regular basis
  - Operating Rules and Procedures, together with other participant communications such as guidance notes and circulars, provide transparency to participants and other stakeholders regarding the operation of the FMI and are available on the ASX website
  - Risk Management Expectation – ASX has a comprehensive suite of policies and procedures regarding the Risk Management of each of the facilities
  - Business priorities: ASX has a 3 year strategic plan approved by the ASX Board and reviewed on a continuous basis
- 
- ASX Group has a robust corporate governance framework, which enables ASX to oversee its FMIs' efficiency and effectiveness
  - Senior management report periodically on the goals and objectives of the CS facilities to the various boards and committees
  - The Clearing Boards review relevant CCP efficiency and effectiveness statistics and reports on a quarterly basis
  - ASX undertakes regular customer engagement. Participant feedback provides an important basis to test against efficiency and effectiveness standards
  - As part of its commitment to continuous improvement, the ASX Operations and Risk divisions have a comprehensive suite of policies and procedures to support the activities to supervise the FMI, which are reviewed on a regular basis
  - ASX business streams capture results and track progress

## PFMI Disclosure Framework | Principle 22

### PRINCIPLE 22 – COMMUNICATION PROCEDURES AND STANDARDS:

An FMI should use, or at a minimum accommodate, relevant internationally accepted communication procedures and standards in order to facilitate efficient payment, clearing, settlement, and recording

#### PFMI/FSS

#### PFMI 22 – KEY CONSIDERATION 1

An FMI should use, or at a minimum accommodate, internationally accepted communication procedures and standards

*NO CORRESPONDING FSS*

#### HOW ASX CENTRAL COUNTERPARTIES COMPLY

- ASX Clear and ASX Clear (Futures) use industry recognised communication standards specific to the domestic and regional market
- ASX Clear's CHES system is a proprietary system, used by domestic Clearing Participants, Settlement Banks and Registries for the secure and efficient clearing and settlement of products transacted on ASX Trade
- The clearing of ASX transactions has taken place in CHES for over 15 years and is an integral part of the technology infrastructure for Australian equity clearing
- ASX Clear (Futures) uses Genium Clearing and OMNet API as an industry recognised communication standard to facilitate and manage the clearing of ASX24 products
- Genium Clearing and the OMNet API are used regionally in neighbouring exchanges (e.g. SGX) and further afield across Scandinavian markets
- ASX Group is informed of any changes to connectivity protocols (either standardised or commercial) and there are processes and procedures in place to determine impact and actions required to accommodate changes. Similarly well-established processes and procedures exist for the notification of changes to downstream users and dependent applications

## PFMI Disclosure Framework | Principle 23

### PRINCIPLE 23 – DISCLOSURE OF RULES, KEY PROCEDURES AND MARKET DATA:

An FMI should have clear and comprehensive rules, policies and procedures and should provide sufficient information and data to enable participants to have an accurate understanding of the risks, fees and other material costs they incur by participating in the FMI. All relevant rules and key policies and procedures should be publicly disclosed

#### PFMI/FSS

##### PFMI 23 – KEY CONSIDERATION 1

An FMI should adopt clear and comprehensive rules, policies and procedures that are fully disclosed to participants. Relevant rules and key policies and procedures should also be publicly disclosed

*FSS 20.1*

A CCP's rules, policies and procedures should clearly identify the nature and scope of the risk exposure assumed by the CCP, such as by novation, open offer or other similar legal devices. A CCP's rules, policies and procedures should clearly identify the point in the clearing process at which the CCP assumes the risk exposure

*FSS 20.2*

##### PFMI 23 – KEY CONSIDERATION 2

An FMI should disclose clear descriptions of the system's design and operations, as well as the FMI's and participants' rights and obligations, so that participants can assess the risks they would incur by participating in the FMI

*FSS 20.3*

#### HOW ASX CENTRAL COUNTERPARTIES COMPLY

- The CCPs' Operating Rules are publicly disclosed at [www.asx.com.au/regulation/rules-guidance-notes-and-waivers.htm](http://www.asx.com.au/regulation/rules-guidance-notes-and-waivers.htm)
- Relevant Operating Rule oversight can be found at [www.asx.com.au/regulation/rules-guidance-notes-and-waivers.htm](http://www.asx.com.au/regulation/rules-guidance-notes-and-waivers.htm)
  - Refer ASX Clear:
    - » Section 12: Registration, Novation, Netting and Settlement
  - Refer ASX Clear (Futures):
    - » Part 3: Registration of Market Contracts and Obligations of ASX Clear (Futures).
- Details of the systems' design and operations are contained in the following marketing document on the ASX website: [https://www.asxonline.com/intradoc-cgi/groups/public/documents/participantapplicationkitsfe/asx\\_022625.pdf](https://www.asxonline.com/intradoc-cgi/groups/public/documents/participantapplicationkitsfe/asx_022625.pdf)
- Refer also to "System design and operations" on page 8 of this document



# PFMI Disclosure Framework | Principle 23

## PFMI/FSS

### PFMI 23 – KEY CONSIDERATION 3

An FMI should provide all necessary and appropriate documentation and training to facilitate participants' understanding of the FMI's rules, policies and procedures and the risks they face from participating in the FMI

*FSS 20.4*

### PFMI 23 – KEY CONSIDERATION 4

An FMI should publicly disclose its fees at the level of the individual services it offers as well as its policies on any available discounts. The FMI should provide clear descriptions of priced services for comparability purposes

*NO CORRESPONDING FSS*

### PFMI 23 – KEY CONSIDERATION 5

An FMI should complete regularly and disclose publicly responses to the CPMI-IOSCO Disclosure Framework for Financial Market Infrastructures. An FMI also should, at a minimum, disclose basic risk and activity data on transaction volumes and values

*FSS 20.5*

## HOW ASX CENTRAL COUNTERPARTIES COMPLY

- Regular forums and workshops are held with Participants for ASX Clear and ASX Clear (Futures) to communicate current and upcoming developments
- ASX Operations provides a helpdesk for Participants, covering operational hours

### ➤ Fee schedules are available on the ASX website at:

- ASX Clear  
[https://www.asxonline.com/intradoc-cgi/groups/participant\\_services/documents/information/asx\\_015359.pdf](https://www.asxonline.com/intradoc-cgi/groups/participant_services/documents/information/asx_015359.pdf)
- ASX Clear (Futures)  
[https://www.asxonline.com/intradoc-cgi/groups/participant\\_services/documents/information/asx\\_027438.pdf](https://www.asxonline.com/intradoc-cgi/groups/participant_services/documents/information/asx_027438.pdf)

- ASX's response to the CPMI-IOSCO Disclosure Framework for Financial Market Infrastructures is updated periodically and available on the ASX website at [www.asx.com.au/documents/regulation/pfmi\\_disclosure\\_framework.pdf](http://www.asx.com.au/documents/regulation/pfmi_disclosure_framework.pdf)

## PRINCIPLE 24 – DISCLOSURE OF MARKET DATA BY TRADE REPOSITORIES :

A TR should provide timely and accurate data to relevant authorities and the public in line with their respective needs

This PFMI is Not applicable to ASX's CCPs.

## FSS 21 – REGULATORY REPORTING:

A CCP should inform the Reserve Bank in a timely manner of any events or changes to its operations or circumstances that may materially impact its management of risks or ability to continue operations. A CCP should also regularly provide information to the Reserve Bank regarding its financial position and risk controls on a timely basis.

### PFMI/FSS

A CCP should inform the Reserve Bank as soon as reasonably practicable if:

- a. it breaches, or has reason to believe that it will breach:
  - i. a CCP Standard; or
  - ii. its broader legislative obligation to do, to the extent that it is reasonably practicable to do so, all things necessary to reduce systemic risk;
- b. it becomes subject to external administration, or has reasonable grounds for suspecting that it will become subject to external administration;
- c. a related body to the CCP becomes subject to external administration, or if the CCP has reasonable grounds for suspecting that a related body will become subject to external administration;
- d. a participant becomes subject to external administration, or if the CCP has reasonable grounds for suspecting that a participant will become subject to external administration;
- e. a participant fails to meet its obligations under the CCP's risk control requirements or has its participation suspended or cancelled because of a failure to meet the CCP's risk control requirements;
- f. it fails to enforce any of its own risk control requirements;

### HOW ASX CENTRAL COUNTERPARTIES COMPLY

If any of these matters arose, ASX would notify the RBA as soon as reasonably practicable following an incident. Identification and monitoring measures include:

- a. **Ongoing monitoring; formal semi-annual review of FSS compliance obligations**
- 
- b. **The CCPs' financial position and activities are reviewed with the Clearing Boards every quarter. Externally audited Financial Statements are produced annually**
- 
- c. **ASX Group, including related entities' financial position is reviewed quarterly by the ASX Limited Board and the ARC. Externally audited financial statements are produced annually**
- 
- d. **Daily monitoring of participant credit indicators; use of "watchlist"; participant communication. A PIRC and then potentially a DMC would be convened and relevant information communicated to regulators. Updates would continue to be provided as further information became available**
- 
- e. **Daily participant monitoring of risk and compliance obligations. A PIRC and then potentially a DMC would be convened and relevant information communicated to regulators. Updates would continue to be provided as further information became available**
- 
- f. **Daily Risk Indicator Report; escalation to senior management**

## PFMI/FSS

- g. it plans to make significant changes to its risk control requirements or its rules, policies and procedures;
- h. it or a service it relies on from a third party or outsourced provider experiences a significant operational disruption, including providing the conclusions of its post-incident review;
- i. any internal audits or independent external expert reviews are undertaken of its operations, risk management processes or internal control mechanisms, including providing the conclusions of such audits or reviews;
- j. its operations or risk controls are affected, or are likely to be affected, by distress in financial markets;
- k. it has critical dependencies on utilities or service providers, including providing a description of the dependency and an update if the nature of this relationship changes;
- l. it proposes to grant a security interest over its assets (other than a lien, right of retention or statutory charge that arises in the ordinary course of business);
- m. it proposes to incur or permit to subsist any loans from participants or members unless such loans are subordinated to the claims of all other creditors of the CCP; or
- n. any other matter arises which has or is likely to have a significant impact on its risk control arrangements (see also CCP Standards 1.6, 16.10 and 19.3)

FSS 21.1

## HOW ASX CENTRAL COUNTERPARTIES COMPLY

- g. Discussion at the quarterly RBA Executive Liaison meeting and/or the RBA Operations meeting
- h. Any incidents are escalated to senior risk management
- i. Reviews are provided to regulators, upon request
- j. Regular risk reporting is provided to the RBA, including stress test exposures. Cyclical impact (e.g. GFC) or distress from participant default (e.g. MF Global) is discussed with the RBA as required
- k. Discussion at the RBA quarterly liaison meeting and/or the RBA operational meeting
- l. No such interests exist. The Chief Financial Officer/ CRO would discuss with the RBA prior to entering in to any such arrangements
- m. Discussion as required prior to loan approval
- n. As required

## PFMI Disclosure Framework | FSS 21

### PFMI/FSS

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A CCP should also provide to the Reserve Bank, on a timely basis:

- a. audited annual accounts;
- b. management accounts on a regular basis, and at least quarterly;
- c. risk management reports, including detailed information on margining and stress testing, on a regular basis, and at least quarterly;
- d. periodic activity, risk and operational data, as agreed with the Reserve Bank; and,
- e. any other information as specified by the Reserve Bank from time to time

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FSS 21.2

### HOW ASX CENTRAL COUNTERPARTIES COMPLY

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All of the required reports and data are on the deliverable lists of responsible executives within ASX

- a. **Annually audited licensed accounts for ASX Clear and ASX Clear (Futures) are provided to the RBA**
- b. **Management accounts for ASX Clear and ASX Clear (Futures) are provided to the RBA quarterly**
- c. **Risk reports are provided to the RBA quarterly**
- d. **Agreed additional data is provided to the RBA quarterly**
- e. **As required**

# PFMI Disclosure Framework | Principle 1

## PRINCIPLE 1 – LEGAL BASIS:

An FMI should have a well-founded, clear, transparent and enforceable legal basis for each material aspect of its activities in all relevant jurisdictions

### PFMI/FSS

A SSF should be a legal entity which is separate from other entities that may expose it to risks unrelated to those arising from its function as a SSF

FSS 1.1

### PFMI 1 – KEY CONSIDERATION 1

The legal basis should provide a high degree of certainty for each material aspect of an FMI's activities in all relevant jurisdictions

FSS 1.2

### HOW ASX SECURITIES SETTLEMENT FACILITIES COMPLY

#### ➤ The ASX Group operates two SSFs:

- 'ASX Settlement', operated by ASX Settlement Pty Limited ABN 49 008 504 532; and,
- 'Austraclear', operated by Austraclear Limited ABN 94 002 060 773

#### ➤ The SSFs are separate legal entities, incorporated in Australia

#### ➤ Neither of the SSFs is exposed to the risks associated with the other's SSF activities, or the activities of any other ASX Group entity, for example:

- There is no cross-guarantee arrangement in place between the CS facilities. In particular, none of the CS facilities is a party to the ASX Group's deed of cross-guarantee, which relates to ASIC's financial reporting requirements

#### ➤ The material aspects of the SSFs' activities, and their legal basis, are:

- Licensing. The primary activity of the SSFs is the provision of settlement services to their participants. Each of the SSFs holds a CS facility licence (under Part 7.3 of the Corporations Act), which provides the legal basis for these services. The relevant licences can be found on [ASIC's website](#)
- Effecting transfers (ASX Settlement only). ASX Settlement is a 'prescribed CS facility' for the purposes of the Corporations Act. Part 7.11 of the Act provides the legal basis for transfers of prescribed classes of financial products to be effected through the settlement facility in accordance with its operating rules
- Legally binding nature of the SSFs' operating rules. Section 822B of the Corporations Act provides that the operating rules of each of the SSFs have effect as a contract under seal between:
  - » the SSF and each issuer,
  - » the SSF and each participant,
  - » each issuer and each participant, and
  - » each participant and each other participant

The operating rules therefore comprise a statutory contract

- Payment Systems and Netting Act (PSNA). In the event that a participant in the CS facility enters into external administration, the PSNA provides certain protections under Australian law, from reversal or invalidation under the laws of any jurisdiction, of termination, netting and settlement of obligations effected in accordance with the operating rules of ASX's CS facilities, as follows:

- » Part 2 protects real time gross settlements effected through an approved RTGS system (each of Austraclear and ASX Settlement has this approval; the Reserve Bank Information and Transfer System (RITS), in relation to which Austraclear and ASX Settlement are “feeder systems”, is also an approved RTGS system); and,
- » Part 3 protects net settlements effected through an approved netting arrangement (each of Austraclear and ASX Settlement has this approval)

➤ **The legal bases outlined above apply irrespective of the jurisdiction in which a participant in the SSF may be incorporated**

## PFMI 1 – KEY CONSIDERATION 2

An FMI should have rules, procedures and contracts that are clear, understandable and consistent with relevant laws and regulations

FSS 1.3

➤ **Rules, procedures and contracts in place:**

- Rules and procedures. Each SSF has its own set of operating rules and procedures which govern the operation of its CS facility
- Contracts. Under an ASX Group intra-group services agreement, ASX Operations Pty Limited (a wholly owned subsidiary of ASX Limited) acts as the group's operating company, entering into contracts on behalf of the ASX Group and its subsidiaries, and then 'on-supplying' the services to the relevant ASX Group entity

➤ **Processes in place to ensure that the rules, procedures and contracts are clear and understandable:**

- Quality control measures are in place for all amendments to the SSFs' operating rules and procedures. Such measures include those which are internal to ASX:
  - » management oversight of the drafting of the amendments,
  - » General Manager sign-off for all amendments, and those which are controlled by ASIC and RBA, namely the regulatory clearance process for amendments to the operating rules, under Part 7.3 of the Corporations Act (Division 2, Subdivision B)

➤ **Processes in place to ensure that the rules, procedures and contracts are consistent with relevant laws and regulations:**

- ASX conducts a continuous internal review of amendments to (or introduction of) laws and regulations that affect the SSFs' operations, and works with ASIC and RBA as appropriate to amend its operating rules, procedures and contracts to ensure ongoing consistency with the law
- ASIC and RBA conduct annual assessments of ASX Group's compliance with licence obligations, which provides further oversight of the FMIs' consistency with the relevant laws and regulations

# PFMI Disclosure Framework | Principle 1

## PFMI/FSS

### PFMI 1 – KEY CONSIDERATION 3

An FMI should be able to articulate the legal basis for its activities to relevant authorities, participants and, where relevant, participants' customers, in a clear and understandable way

FSS 1.4

### PFMI 1 – KEY CONSIDERATION 4

An FMI should have rules, procedures and contracts that are enforceable in all jurisdictions. There should be a high degree of certainty that actions taken by the FMI under such rules and procedures will not be voided, reversed or subject to stays

FSS 1.5

### PFMI 1 – KEY CONSIDERATION 5

An FMI conducting business in multiple jurisdictions should identify and mitigate the risks arising from any potential conflicts of law across jurisdictions

FSS 1.6

## HOW ASX SECURITIES SETTLEMENT FACILITIES COMPLY

### ➤ How the SSFs articulate the legal basis for their activities to stakeholders:

- The legal basis for the activities of the SSFs and the facilities' protection under Parts 2 and 3 of the PSNA are set out on ASX's public website in this Disclosure Framework document
- ASX Limited (on behalf of each licensed entity within the ASX Group, including the SSFs) submits an 'Annual Group Licence Report' to ASIC. This report sets out the legal basis for the SSFs' activities (namely the licence obligations), and is used by ASIC in the preparation of ASIC's 'market assessment reports' which are published on ASIC's website
- Where appropriate, ASX commissions and makes available to participants and/or clients of participants, on a confidential basis, external legal opinions to (1) confirm the legal efficacy of operating rules that are introduced to support new ASX services or meet regulatory requirements that apply to ASX or its participants, or (2) confirm the impact of new ASX services on participants' existing contractual arrangements

### ➤ Rules and Procedures. Section 822B of the Corporations Act provides that the operating rules of each SSF have effect as a contract under seal between the SSF, participants and issuers. The operating rules are enforceable as a statutory contract

### ➤ Contracts. The contracts entered into by the SSFs and third parties are enforceable under Australian contract law

### ➤ Actions taken by a SSF under its operating rules

- The status of actions taken by a SSF which has entered into external administration is expected to be addressed by the introduction into Australian law of a statutory management regime for financial market infrastructure, as foreshadowed in consultations undertaken by the Council of Financial Regulators and Treasury in 2011, 2012 and 2015
- The status of actions taken by a SSF under Australian law where one of its participants defaults and enters into administration is addressed by the PSNA, which, as noted above, provides certain protections under Australian law from reversal or invalidation under the laws of any jurisdiction, of netting and settlement of obligations effected in accordance with a SSF's operating rules

### ➤ The operating rules of the SSFs are governed by Australian law and participants submit to the jurisdiction of the courts of New South Wales. Accordingly, Australia is the relevant jurisdiction for enforcement of the rules

### ➤ The legal bases outlined above apply irrespective of the jurisdiction in which a participant in the SSF may be incorporated



## PFMI Disclosure Framework | Principle 2

### PRINCIPLE 2 – GOVERNANCE:

An FMI should have governance arrangements that are clear and transparent, promote the safety and efficiency of the FMI, and support the stability of the broader financial system, other relevant public interest considerations and the objectives of relevant stakeholders

#### PFMI/FSS

##### PFMI 2 – KEY CONSIDERATION 1

An FMI should have objectives that place a high priority on the safety and efficiency of the FMI and explicitly support financial stability and other relevant public interest considerations

FSS 2.1

##### PFMI 2 – KEY CONSIDERATION 2

An FMI should have documented governance arrangements that provide clear and direct lines of responsibility and accountability. These arrangements should be disclosed to owners, relevant authorities, participants and, at a more general level, the public

FSS 2.2

#### HOW ASX SECURITIES SETTLEMENT FACILITIES COMPLY

- These obligations are addressed in the ASX Limited Board Charter and the CS Boards Charter. These are published on the ASX website
  - The ASX Limited Board Charter sets out the functions of the Board, which include, but are not limited to, responsibility to oversee the conduct of the affairs of the ASX Group consistent with licence obligations as well as public policy objectives directed at financial market and payment systems integrity
  - The CS Boards Charter sets out the responsibilities of the CS Boards, which include, but are not limited to, reviewing and providing oversight of risk management processes, internal controls and compliance systems in respect of the management of clearing and settlement risks and compliance with the Financial Stability Standards. The CS Boards Charter also refers to the statutory obligations of the CS Boards under the Corporations Act, which also include, but are not limited to, doing all other things necessary to reduce systemic risk, providing the facility's services in a fair and effective way and having adequate conflict handling and compliance arrangements
- 
- Governance arrangements are documented in the CS Boards Charter, ASX Limited Board Charter & Committee Charters, and the ASX Compliance Charter. These are published on the ASX website
  - The ASX Limited Board Charter sets out how it relies on the CS Boards to oversee the clearing and settlement operations of the CS entities
  - The CS Boards Charter sets out the clearing and settlement executive management structure and reporting lines, ownership structure, design and oversight of risk management and internal controls
  - The Remuneration Committee Charter sets out the Committee's role overseeing executive remuneration and performance management processes. The CS Boards review the performance of the CRO and Group Executive, Operations and advise the Remuneration Committee of the outcomes
  - The CEO is responsible for the appointment and termination of both of these roles following consultation with the ASX Limited Board and with the agreement of the CS Boards
  - The Nomination Committee Charter sets out the Committee's role in reviewing nomination matters relating to the composition and performance of the CS Boards
  - The ASX Compliance Charter sets out the powers delegated to ASX Compliance by the CS Boards to perform compliance and enforcement services
  - The CS Boards Charter sets out that both the General Manager Regulatory Assurance and General Manager Internal Audit have a direct line of reporting to the CS Boards, with periodic reporting provided

# PFMI Disclosure Framework | Principle 2

PFMI/FSS

HOW ASX SECURITIES SETTLEMENT FACILITIES COMPLY

### PFMI 2 – KEY CONSIDERATION 3

The roles and responsibilities of an FMI's board of directors (or equivalent) should be clearly specified, and there should be documented procedures for its functioning, including procedures to identify, address and manage member conflicts of interest. The board should review both its overall performance and the performance of its individual board members regularly

FSS 2.3

### PFMI 2 – KEY CONSIDERATION 4

The board should contain suitable members with the appropriate skills and incentives to fulfil its multiple roles. This typically requires the inclusion of non-executive board member(s)

FSS 2.4

- The CS Boards and ASX Limited Board Committees report regularly to the ASX Limited Board and to each other on relevant matters. Minutes of their meetings are made available to the ASX Limited Board, except where the CS Boards consider commercially sensitive information. This would usually arise in a situation where another market operator or listing venue is obtaining services from, or access to, the CS facility. In those cases, no directors who are also on the ASX Limited Board attend the CS Boards meeting and neither the matter discussed nor the minutes of the CS Boards meeting are reported to the ASX Limited Board
- Board roles and responsibilities are set out in the CS Boards Charter, ASX Limited Board Charter & Committee Charters
- Board responsibility for effective monitoring of senior management is addressed in the CS Boards Charter and the Remuneration Committee Charter
- Board responsibility for nomination matters is addressed in the CS Boards Charter and the Nomination Committee Charter. Members of ASX Limited's Nomination Committee (from time to time) are appointed to review nomination matters, with reporting to the CS Boards
- Board responsibility for risk management and internal control is addressed in the CS Boards Charter and the ARC Charter
- Board responsibility for ensuring compliance with all supervisory and oversight requirements, ensuring consideration of financial stability and other relevant public interests is addressed by the CS Boards and ASX Compliance
- Board responsibility for providing accountability to owners, participants and other relevant stakeholders is addressed through reporting to the ASX Limited Board, consultation with relevant stakeholders and publication of governance arrangements
- Board performance reviews are addressed in the CS Boards Charter
- Conflicts handling is addressed in the CS Boards Charter and ASX's Conflict Handling Arrangements, a copy of which is published on the ASX website and meets FSS requirements
- These obligations are addressed in the CS Boards Charter and the Nomination and Remuneration Committee Charters
- The Nomination Committee Charter sets out that the Committee periodically reviews the composition, skills and experience of the CS Boards. Director appointments to the CS Boards are made by the respective CS Board
- All CS Board directors, other than the CEO, are independent non-executives
- The Remuneration Committee Charter sets out that the Committee periodically review compensation for CS Board directors. CS Board directors do not receive any performance-related compensation

## PFMI Disclosure Framework | Principle 2

PFMI/FSS

HOW ASX SECURITIES SETTLEMENT FACILITIES COMPLY

### PFMI 2 – KEY CONSIDERATION 5

The roles and responsibilities of management should be clearly specified. An FMI's management should have the appropriate experience, a mix of skills and the integrity necessary to discharge their responsibilities for the operation and risk management of the FMI

FSS 2.5

- Director information, including directors' interests, details of ASX Group cross-directorships and independence is published on the ASX website
  - Director independence is reviewed annually. The CS Boards have adopted the ASX Limited Board Policy and Guideline to Relationships Affecting Independent Status, which sets out the matters which will be considered when assessing director independence. This policy is published on ASX's website
  - Directors' interests are tabled at each Board meeting
  - No tenure limit in CS Boards Charter
- 
- The roles and responsibilities of senior management relevant to CS operations are set out in the CS Boards Charter and more fully in defined position descriptions
  - The CEO has responsibility for the overall operational and business management and profit performance of ASX. The CRO and Group Executive, Operations report to the CEO
  - The CRO has responsibility for the overall clearing risk management of the CS subsidiaries and for ensuring the CS license obligations are met
  - The Group Executive, Operations has responsibility for the overall settlement risk management of the CS subsidiaries
  - The CS Boards Charter sets out that the CS Boards appoint members of the Remuneration Committee (from time to time) to review compensation arrangements for the CRO and Group Executive, Operations. The CS Boards provide input to the Remuneration Committee as part of the annual performance management process
  - The Remuneration Committee also reviews compensation arrangements for the CRO and Group Executive, Operations to confirm these are structured in such a way as to promote the soundness and effectiveness of risk management. Reporting is provided to the CS Boards
  - Executive KPIs are structured to promote soundness and effectiveness of risk management

## PFMI Disclosure Framework | Principle 2

### PFMI/FSS

#### PFMI 2 – KEY CONSIDERATION 6

The board should establish a clear, documented risk management framework that includes the FMI's risk tolerance policy, assigns responsibilities and accountability for risk decisions, and addresses decision-making in crises and emergencies. Governance arrangements should ensure that the risk management and internal control functions have sufficient authority, independence, resources and access to the board

FSS 2.6

A SSF's operations, risk management processes, internal control mechanisms and accounts should be subject to internal audit and, where appropriate, periodic external independent expert review. Internal audits should be performed, at a minimum, on an annual basis. The outcome of internal audits and external reviews should be notified to the Reserve Bank and other relevant authorities

FSS 2.7

#### PFMI 2 – KEY CONSIDERATION 7

The board should ensure that the FMI's design, rules, overall strategy and major decisions reflect appropriately the legitimate interests of its direct and indirect participants and other relevant stakeholders. Major decisions should be clearly disclosed to relevant stakeholders and, where there is a broad market impact, the public

FSS 2.8

### HOW ASX SECURITIES SETTLEMENT FACILITIES COMPLY

- These obligations are addressed in the CS Boards Charter, ARC Charter, Internal Audit Charter, and the ASX Enterprise Risk Management Policy and Framework. Further details are provided under Principle 3; Key Consideration 1
- The CS Boards are responsible for oversight of risk management relevant to the CS Boards and the ARC is responsible for oversight of enterprise wide risk. The CS Boards appoint members of the ARC (from time to time) to review matters that the ARC is responsible for, which may impact on CS operations. Reporting is provided to the CS Boards
- Each of the CRO, Group Executive, Operations GM, Regulatory Assurance & GM, Internal Audit have a direct line of reporting to the CS Boards. These are documented in their employment agreements or position descriptions
- The Internal Audit Charter addresses the independence of Internal Audit. The Internal Audit Plan is approved by the ARC, and by the CS Boards for matters relevant to the CS subsidiaries

- These obligations are addressed in the CS Boards Charter, ARC Charter and Internal Audit Charter
- The CS Boards are responsible for oversight of risk management (including internal controls and Internal Audit matters) relevant to the CS Boards and the ARC is responsible for oversight of enterprise wide risk. The CS Boards appoint members of the ARC (from time to time) to review matters that the ARC is responsible for, which may impact on CS operations
- The Internal Audit Charter addresses the independence of Internal Audit. The Internal Audit Plan is approved by the ARC, and by the CS Boards for matters relevant to the CS subsidiaries

- Stakeholder management is addressed within the ASX Limited Board, CS Boards and Customer Charters
- ASX's Customer Charter sets out how ASX will balance the interests of customers, shareholders, end investors and the broader financial markets. ASX regularly seeks feedback from participants and stakeholders, including through consultation and stakeholder committees
- Consultation processes include operational arrangements, risk controls and default management rules and procedures. Details of all public consultation and non-confidential submissions received are published on the ASX website
- The Forum is an advisory body established under the Code of Practice comprising senior representatives from ASX's clearing and settlement participants, and a wide range of other industry stakeholders. The Forum provides a mechanism for ASX to engage with users of clearing and settlement services to ensure that the ongoing development of cash market clearing and settlement infrastructure and services meet the needs of users and are aligned with global standards. A Business Committee to provide business and operational input into the Forum on its forward work program was also established under the Code. Further detail about the Code, Forum and Business Committee is published on ASX's website
- ASX also seeks participant input into the design, operation and development of Austraclear through an Austraclear advisory committee

## PFMI Disclosure Framework | Principle 2

### PFMI/FSS

A SSF that is part of a group of companies should ensure that measures are in place such that decisions taken in accordance with its obligations as a SSF cannot be compromised by the group structure or by board members also being members of the board of other entities in the same group. In particular, such a SSF should consider specific procedures for preventing and managing conflicts of interest, including with respect to intragroup outsourcing arrangements

FSS 2.9

### HOW ASX SECURITIES SETTLEMENT FACILITIES COMPLY

- Conflict handling is specifically addressed in the CS Charter and ASX's Group Conflict Handling Arrangements. Enhancements have been made to address being part of a corporate group. These documents are published on the ASX website
- Director information, including directors' interests, ASX Group cross-directorships and independence, is published on the ASX website
- Directors' interests are tabled at each Board meeting
- Outsourcing clauses in intra-group outsourcing arrangements address conflicts of interest, including specifying that ASX Group staff are under a duty to act in the best interests of the SSF receiving the services
- ASX Clear and ASX Settlement Boards periodically meet separately from the other CS Boards. ASX Clear and ASX Settlement provide clearing and settlement arrangements to competing listing or trading venues. These are often referred to as "access arrangements". Transparent and non-discriminatory access arrangements have been approved for competing market operators or listing venues. The Boards of ASX Clear and ASX Settlement are made up of 6 directors, the only executive director is the ASX CEO and Managing Director. Three of the five non-executive directors of ASX Clear and ASX Settlement, including the Chair, are not directors on the ASX Limited Board which competes with these venues. Two of these three directors are able to form a quorum to meet and consider any commercially sensitive matters. The three non-ASX Limited directors meet regularly
- Each other CS Board is also constituted such that directors who are not on the ASX Limited Board can form a quorum and meet if required. This would usually arise if one of the CS Boards was required to consider commercially sensitive information where another market operator or listing venue is obtaining services from, or access to, the CS facility. In those cases, no directors who are also on the ASX Limited Board attend the CS Boards meeting and neither the matter discussed nor the minutes of the CS Boards meeting are reported to the ASX Limited Board

# PFMI Disclosure Framework | Principle 3

## PRINCIPLE 3 – FRAMEWORK FOR THE COMPREHENSIVE MANAGEMENT OF RISKS:

An FMI should have a sound risk management framework for comprehensively managing legal, credit, liquidity, operational and other risks

### PFMI/FSS

#### PFMI 3 – KEY CONSIDERATION 1

An FMI should have risk management policies, procedures and systems that enable it to identify, measure, monitor and manage the range of risks that arise in or are borne by the FMI. Risk management frameworks should be subject to periodic review

FSS 3.1

A SSF should ensure that financial and other obligations imposed on participants under its risk management framework are proportional to the scale and nature of individual participant's activities

FSS 3.2

#### PFMI 3 – KEY CONSIDERATION 2

An FMI should provide incentives to participants and, where relevant, their customers to manage and contain the risks they pose to the FMI

FSS 3.3

### HOW ASX SECURITIES SETTLEMENT FACILITIES COMPLY

- The ASX Enterprise Risk Management Policy and Framework is based on the International Standard (ISO 31000) for risk management and approved by the ERM. The 'Summary of Risk Management Policies' is on the ASX website
  - The SSFs have identified the range of risks that arise from their activities and considered them in the standardised risk categories, being: Strategic, Financial, Legal & Regulatory and Technology & Operations
  - ASX Operations has developed a Settlement Risk Policy Framework which encompasses settlement policies and standards. Existing settlement policies and standards will be documented and reviewed against that Framework and any changes will be approved by the CS Boards and subject to annual review
  - Clearing & Settlement Operations has systems and reports which identify key risk indicators and balances
  - Internal Audit includes SSF activities in its risk based audit plan. The Internal Audit Charter is on the ASX website
- 
- The SSFs' settlement risk policies will be aligned to scale and nature or participant risk exposures and activities and subject to annual review
  - The SSFs' operating rules are designed and implemented in a way to recognise the criticality of the individual participant's activities. The SSFs' Operating Rules are on the ASX website
- 
- Incentives for ASX Settlement participants to manage their risks are via fees for failed settlements, security bonds (settlement bond for all ASX General Settlement participants and sponsorship bonds for any ASX Settlement Participant that is not also a Market Participant), etc
  - The Austraclear facility provides two messaging alternatives (SWIFT and HTHL) that enable participants to achieve straight through processing of settlement transactions that must be matched bilaterally. This helps mitigate participants' operational and settlement risk through the reduction or elimination of manual processing
  - Penalties for non-compliance with SSF operating rules may be applied
  - Participants may be required to seek alternative settlement arrangements if they are unable to manage their risks to a level acceptable to ASX's SSFs. The ASX Settlement and Austraclear Operating Rules are on the ASX website
  - Information is provided to SSF participants to allow them to manage their risks and include daily gross and net settlement positions (ASX Settlement)

# PFMI Disclosure Framework | Principle 3

## PFMI/FSS

### PFMI 3 – KEY CONSIDERATION 3

An FMI should regularly review the material risks it bears from and poses to other entities (such as other FMIs, settlement banks, liquidity providers and service providers) as a result of interdependencies, and develop appropriate risk management tools to address these risks

*FSS 3.4*

### PFMI 3 – KEY CONSIDERATION 4

An FMI should identify scenarios that may potentially prevent it from being able to provide its critical operations and services as a going concern and assess the effectiveness of a full range of options for recovery or orderly wind-down. An FMI should prepare appropriate plans for its recovery or orderly wind-down based on the results of that assessment. Where applicable, an FMI should also provide relevant authorities with the information needed for purposes of resolution planning

*FSS 3.5*

## HOW ASX SECURITIES SETTLEMENT FACILITIES COMPLY

- Risk profiling is undertaken every six months which includes risks posed by external entities to the SSFs
  - Major loss scenario analysis is undertaken periodically
  - ASX has engaged with ASIC to better communicate to participants and their customers the risks associated with settlement arrangements. Incentives for participants to manage their risks are via capital requirements, fees for failed settlements (ASX Settlement only), etc
- 
- The SSFs have developing recovery plans based on existing powers. The SSFs have commenced work to develop a more comprehensive recovery plan in line with CPMI-IOSCO guidance on FMI recovery planning, released in October 2014



# PFMI Disclosure Framework | Principle 4

## PRINCIPLE 4 – CREDIT RISK:

An FMI should effectively measure, monitor and manage its credit exposures to participants and those arising from its payment, clearing and settlement processes. An FMI should maintain sufficient financial resources to cover its credit exposure to each participant fully with a high degree of confidence

### PFMI/FSS

### HOW ASX SECURITIES SETTLEMENT FACILITIES COMPLY

#### PFMI 4 – KEY CONSIDERATION 1

An FMI should establish a robust framework to manage its credit exposures to its participants and the credit risks arising from its payment, clearing and settlement processes. Credit exposures may arise from current exposures, potential future exposures, or both

FSS 4.1

➤ Not applicable – the SSFs do not enter into arrangements with participants that give rise to credit risk

#### PFMI 4 – KEY CONSIDERATION 2

An FMI should identify sources of credit risk, routinely measure and monitor credit exposures, and use appropriate risk management tools to control these risks

FSS 4.2

➤ Not applicable – the SSFs do not enter into arrangements with participants that give rise to credit risk

A SSF should have the authority to impose activity restrictions or additional credit risk controls on a participant in situations where the SSF determines that the participant's credit standing may be in doubt

FSS 4.3

➤ Not applicable – the SSFs do not enter into arrangements with participants that give rise to credit risk

# PFMI Disclosure Framework | Principle 4

## PFMI/FSS

### PFMI 4 – KEY CONSIDERATION 3

A SSF should cover its current and, where they exist, potential future exposures to each participant fully with a high degree of confidence using collateral and other equivalent financial resources (see SSF Standard 5 on collateral). In the case of a deferred net settlement (DNS) SSF in which there is no settlement guarantee, but where its participants face credit exposures arising from its settlement processes, the facility should maintain, at a minimum, sufficient resources to cover the exposures of the two participants and their affiliates that would create the largest aggregate credit exposure in the system

*FSS 4.4*

### PFMI 4 – KEY CONSIDERATION 4, 5 & 6

*NO CORRESPONDING FFS*

### PFMI 4 – KEY CONSIDERATION 7

An FMI should establish explicit rules and procedures that address fully any credit losses it may face as a result of any individual or combined default among its participants with respect to any of their obligations to the FMI. These rules and procedures should address how potentially uncovered credit losses would be allocated, including the repayment of any funds an FMI may borrow from liquidity providers. These rules and procedures should also indicate the FMI's process to replenish any financial resources that the FMI may employ during a stress event, so that the FMI can continue to operate in a safe and sound manner

*FSS 4.5*

## HOW ASX SECURITIES SETTLEMENT FACILITIES COMPLY

➤ Not applicable – the SSFs do not enter into arrangements with participants that give rise to credit risk

➤ Applicable to CCPs only

➤ Not applicable – the SSFs do not enter into arrangements with participants that give rise to credit risk

## PFMI Disclosure Framework | Principle 5

### PRINCIPLE 5 – COLLATERAL:

An FMI that requires collateral to manage its or its participants' credit exposures should accept collateral with low credit, liquidity and market risks. A SSF should also set and enforce appropriately conservative haircuts and concentration limits

#### PFMI/FSS

##### PFMI 5 – KEY CONSIDERATION 1

An FMI should generally limit the assets it (routinely) accepts as collateral to those with low credit, liquidity and market risks

*FSS 5.1*

In determining its collateral policies, a SSF should take into consideration the broad effect of these policies on the market. As part of this, a SSF should consider allowing the use of collateral commonly accepted in the relevant jurisdictions in which it operates

*FSS 5.2*

##### PFMI 5 – KEY CONSIDERATION 2

An FMI should establish prudent valuation practices and develop haircuts that are regularly tested and take into account stressed market conditions

*FSS 5.3*

#### HOW ASX SECURITIES SETTLEMENT FACILITIES COMPLY

➤ Not applicable – the SSFs do not undertake activities that require the lodgement of collateral

➤ Not applicable – the SSFs do not undertake activities that require the lodgement of collateral

➤ Not applicable – the SSFs do not undertake activities that require the lodgement of collateral

# PFMI Disclosure Framework | Principle 5

## PFMI/FSS

### PFMI 5 – KEY CONSIDERATION 3

In order to reduce the need for procyclical adjustments, an FMI should establish stable and conservative haircuts that are calibrated to include periods of stressed market conditions, to the extent practicable and prudent

*FSS 5.4*

### PFMI 5 – KEY CONSIDERATION 4

An FMI should avoid concentrated holdings of certain assets where this would significantly impair the ability to liquidate such assets quickly without significant adverse price effects

*FSS 5.5*

### PFMI 5 – KEY CONSIDERATION 5

An FMI that accepts cross-border collateral should mitigate the risks associated with its use and ensure that the collateral can be used in a timely manner

*FSS 5.6*

### PFMI 5 – KEY CONSIDERATION 6

An FMI should use a collateral management system that is well designed and operationally flexible

*FSS 5.7*

## HOW ASX SECURITIES SETTLEMENT FACILITIES COMPLY

➤ Not applicable – the SSFs do not undertake activities that require the lodgement of collateral

➤ Not applicable – the SSFs do not undertake activities that require the lodgement of collateral

➤ Not applicable – the SSFs do not undertake activities that require the lodgement of collateral

➤ Not applicable – the SSFs do not undertake activities that require the lodgement of collateral

# PFMI Disclosure Framework | Principle 6 & 7

## PRINCIPLE 6 – MARGIN

Not applicable to SSFs

## PRINCIPLE 7 – LIQUIDITY RISK:

An FMI should effectively measure, monitor, and manage its liquidity risk. An FMI should maintain sufficient liquid resources in all relevant currencies to effect same-day and, where appropriate, intraday and multiday settlement of payment obligations with a high degree of confidence under a wide range of potential stress scenarios that should include, but not be limited to, the default of the participant and its affiliates that would generate the largest aggregate liquidity obligation for the FMI in extreme but plausible market conditions

### PFMI/FSS

### HOW ASX SECURITIES SETTLEMENT FACILITIES COMPLY

#### PFMI 7 – KEY CONSIDERATION 1

An FMI should have a robust framework to manage its liquidity risks from its participants, settlement agents, nostro agents, custodian banks, liquidity providers and other entities

FSS 6.1

➤ Not applicable – the SSFs do not undertake activities that give rise to funding requirements

#### PFMI 7 – KEY CONSIDERATION 2

An FMI should have effective operational and analytical tools to identify, measure and monitor its settlement and funding flows on an ongoing and timely basis, including its use of intraday liquidity

FSS 6.2

➤ Not applicable – the SSFs do not undertake activities that give rise to funding requirements

#### PFMI 7 – KEY CONSIDERATION 3

A payment system or securities settlement system, including one employing a deferred net settlement mechanism, should maintain sufficient liquid resources in all relevant currencies to effect same-day settlement and, where appropriate, intraday or multiday settlement of payment obligations with a high degree of confidence under a wide range of potential stress scenarios that should include, but not be limited to, the default of the participant and its affiliates that would generate the largest aggregate payment obligation in extreme but plausible market conditions

FSS 6.3

➤ Not applicable – the SSFs do not undertake activities that give rise to funding requirements

# PFMI Disclosure Framework | Principle 7

## PFMI/FSS

### PFMI 7 – KEY CONSIDERATION 4

*NO CORRESPONDING FFS*

### PFMI 7 – KEY CONSIDERATION 5

For the purpose of meeting its minimum liquid resources requirement, an FMI's qualifying liquid resources in each currency include cash at the central bank of issue and at creditworthy commercial banks, committed lines of credit, committed foreign exchange swaps and committed repos, as well as highly marketable collateral held in custody and investments that are readily available and convertible into cash with prearranged and highly reliable funding arrangements, even in extreme but plausible market conditions. If an FMI has access to routine credit at the central bank of issue, the FMI may count such access as part of the minimum requirement to the extent it has collateral that is eligible for pledging to (or for conducting other appropriate forms of transactions with) the relevant central bank. All such resources should be available when needed

*FFS 6.4*

## HOW ASX SECURITIES SETTLEMENT FACILITIES COMPLY

➤ Applicable to CCPs only

➤ Not applicable – the SSFs do not undertake activities that give rise to funding requirements

## PFMI Disclosure Framework | Principle 7

### PFMI/FSS

#### PFMI 7 – KEY CONSIDERATION 6

An FMI may supplement its qualifying liquid resources with other forms of liquid resources. If the FMI does so, these liquid resources should be in the form of assets that are likely to be saleable or acceptable as collateral for lines of credit, swaps or repos on an ad hoc basis following a default, even if this cannot be reliably prearranged or guaranteed in extreme market conditions. Even if an FMI does not have access to routine central bank credit, it should still take account of what collateral is typically accepted by the relevant central bank, as such assets may be more likely to be liquid in stressed circumstances. An FMI should not assume the availability of emergency central bank credit as part of its liquidity plan

*FSS 6.5*

#### PFMI 7 – KEY CONSIDERATION 7

An FMI should obtain a high degree of confidence, though rigorous due diligence, that each provider of its minimum required qualifying liquid resources, whether a participant of the FMI or an external party, has sufficient information to understand and to manage its associated liquidity risks, and that it has the capacity to perform as required under its commitment. Where relevant to assessing a liquidity provider's performance reliability with respect to a particular currency, a liquidity provider's potential access to credit from the central bank of issue may be taken into account. An FMI should regularly test its procedures for accessing its liquid resources at a liquidity provider

*FSS 6.6*

### HOW ASX SECURITIES SETTLEMENT FACILITIES COMPLY

➤ Not applicable – the SSFs do not undertake activities that give rise to funding requirements

➤ Not applicable – the SSFs do not undertake activities that give rise to funding requirements

# PFMI Disclosure Framework | Principle 7

## PFMI/FSS

### PFMI 7 – KEY CONSIDERATION 8

An FMI with access to central bank accounts, payment services or securities services should use these services, where practical, to enhance its management of liquidity risk

*FSS 6.7*

### PFMI 7 – KEY CONSIDERATION 9

An FMI should determine the amount and regularly test the sufficiency of its liquid resources through rigorous stress testing. An FMI should have clear procedures to report the results of its stress tests to appropriate decision-makers at the FMI and to use these results to evaluate the adequacy of, and adjust, its liquidity risk management framework. In conducting stress testing, an FMI should consider a wide range of relevant scenarios. Scenarios should include relevant peak historic price volatilities, shifts in other market factors such as price determinants and yield curves, multiple defaults over various time horizons, simultaneous pressures in funding and asset markets, and a spectrum of forward-looking stress scenarios in a variety of extreme but plausible market conditions. Scenarios should also take into account the design and operation of the FMI, include all entities that might pose material liquidity risks to the FMI (such as settlement banks, nostro agents, custodian banks, liquidity providers and linked FMIs) and, where appropriate, cover a multiday period. In all cases, an FMI should document its supporting rationale for, and should have appropriate governance arrangements relating to, the amount and form of total liquid resources it maintains

*FSS 6.8*

## HOW ASX SECURITIES SETTLEMENT FACILITIES COMPLY

➤ Not applicable – the SSFs do not undertake activities that give rise to funding requirements

➤ Not applicable – the SSFs do not undertake activities that give rise to funding requirements



## PFMI Disclosure Framework | Principle 7

PFMI/FSS

### PFMI 7 – KEY CONSIDERATION 10

An FMI should establish explicit rules and procedures that enable the FMI to effect same-day and, where appropriate, intraday and multiday settlement of payment obligations on time following any individual or combined default among its participants. These rules and procedures should address unforeseen and potentially uncovered liquidity shortfalls and should aim to avoid unwinding, revoking or delaying the same-day settlement of payment obligations. These rules and procedures should also indicate the FMI's process to replenish any liquidity resources it may employ during a stress event, so that it can continue to operate in a safe and sound manner

*FSS 6.9*

HOW ASX SECURITIES SETTLEMENT FACILITIES COMPLY

➤ Not applicable – the SSFs do not undertake activities that give rise to funding requirements

## PFMI Disclosure Framework | Principle 8

### PRINCIPLE 8 – SETTLEMENT FINALITY:

An FMI should provide clear and certain final settlement, at a minimum by the end of the value date. Where necessary or preferable, an FMI should provide final settlement intraday or in real time

#### PFMI/FSS

##### PFMI 8 – KEY CONSIDERATION 1

An FMI's rules and procedures should clearly define the point at which settlement is final

*FSS 7.1*

##### PFMI 8 – KEY CONSIDERATION 2

An FMI should complete final settlement no later than the end of the value date, and preferably intraday or in real time, to reduce settlement risk. A large value payment system or securities settlement system should consider adopting real-time gross settlement or multiple-batch processing during the settlement day

*FSS 7.2*

#### HOW ASX SECURITIES SETTLEMENT FACILITIES COMPLY

- Settlement occurs simultaneously within Austraclear and CHES after cash settlement across the ESA account within RITS. Movement of securities in Austraclear will only occur once a message is received from RITS that the cash leg has settled across ESA accounts. The point at which settlement is final is set out in the Austraclear Regulations at Sections 14, 15 and 16
  - For cash transactions in a foreign currency in Austraclear, the point at which settlement is final is set out in Austraclear Regulation 29.1
  - For ASX Settlement, movement of equity securities in CHES from delivering settlement Entrepot accounts to receiving Entrepot accounts will only occur after receipt of a message from RITS indicating that cash has settled across ESA accounts. The point at which settlement is final is set out in the ASX Settlement Operating Rules at Section 10
- 
- DvP Model 1 (Austraclear) and DvP Model 3 (Equities – ASX Settlement) settlement systems are used
  - In addition, CHES facilitates RTGS (ASX Settlement)
  - Settlement occurs simultaneously within Austraclear and CHES after cash settlement across the ESA account within RITS. Movement of securities in Austraclear will only occur once a message is received from RITS that the cash leg has settled across ESA accounts. If a settlement instruction remains unsettled (neither cash nor securities legs have settled), the transaction is cancelled and purged from the Austraclear System. (This applies equally to cash transactions in a foreign currency in Austraclear)
  - For ASX Settlement, movement of equity securities in CHES from delivering settlement Entrepot accounts to receiving Entrepot accounts will only occur after receipt of a message from RITS indicating that cash has settled across ESA accounts
  - The deadlines for completion of the ASX Settlement equity batch settlement and the obligations of Payment Providers are set out in the CHES Payments Interface Standard Payments Provider Deed
  - See ASX Settlement Operating Rules, Section 10
  - See Austraclear Regulations Sections 14, 15 and 16

## PFMI Disclosure Framework | Principle 8

PFMI/FSS

### PFMI 8 – KEY CONSIDERATION 3

An FMI should clearly define the point after which unsettled payments, transfer instructions or other obligations may not be revoked by a participant

FSS 7.3

HOW ASX SECURITIES SETTLEMENT FACILITIES COMPLY

- ASX SSFs complete settlement in accordance with the Operating Rules and Procedures of ASX Settlement and Austraclear, at:
  - Refer ASX Settlement – Section 10
  - Refer Austraclear Regulations – Sections 14, 15 & 16.
- Movement of securities in Austraclear will only occur once a message is received from RITS that the cash leg has settled across ESA accounts. The point at which settlement is final is set out in the Austraclear Regulations at Sections 14, 15 and 16
- For ASX Settlement, movement of equity securities in CHESS from delivering settlement Entrepot accounts to receiving Entrepot accounts will only occur after receipt of a message from RITS indicating that cash has settled across ESA accounts. The point at which settlement is final is set out in the ASX Settlement Operating Rules at Section 10
- Unsettled payments may not be revoked after they match and the cash leg has settled across ESA accounts.
- Unsettled transactions in Austraclear are removed from the system after the end of the business day under Regulations 14.4 and 14.4A

## PFMI Disclosure Framework | Principle 9

### PRINCIPLE 9 – MONEY SETTLEMENTS:

An FMI should conduct its money settlements in central bank money where practical and available. If central bank money is not used, an FMI should minimise and strictly control the credit and liquidity risk arising from the use of commercial bank money

#### PFMI/FSS

##### PFMI 9 – KEY CONSIDERATION 1

An FMI should conduct its money settlements in central bank money, where practical and available, to avoid credit and liquidity risks

*FSS 8.1*

##### PFMI 9 – KEY CONSIDERATION 2

If central bank money is not used, an FMI should conduct its money settlements using a settlement asset with little or no credit or liquidity risk

*FSS 8.2*

##### PFMI 9 – KEY CONSIDERATION 3

If an FMI settles in commercial bank money, it should monitor, manage and limit its credit and liquidity risks arising from the commercial banks. In particular, an FMI should establish and monitor adherence to strict criteria for its settlement banks that take account of, among other things, their regulation and supervision, creditworthiness, capitalisation, access to liquidity and operational reliability. An FMI should also monitor and manage the concentration of credit and liquidity exposures to its commercial settlement banks

*FSS 8.3*

#### HOW ASX SECURITIES SETTLEMENT FACILITIES COMPLY

- All \$AUD settlements are conducted via CHESS (for ASX Settlement) and Austraclear across ESAs in RITS
- The ESA account for settlement of cash equities is held in the name of ASX Settlement

- All settlements involving the SSFs are completed in central bank money, except cash transactions in a foreign currency within Austraclear
- Cash transactions in a foreign currency in Austraclear are conducted using central bank money or commercial money. The foreign currency and the foreign currency settlement bank must meet the requirements of Austraclear Regulations 29.2 and 29.3. Funds are settled when Austraclear has successfully verified that sufficient funds are available with the foreign currency settlement bank in line with Regulation 29.1

- Subject to the following, all settlements involving the SSFs are completed in central bank money

For cash transactions in a foreign currency in Austraclear, the requirements for foreign currency settlement banks are principally set out in Regulation 29.3 and Regulation 29.4. In considering whether to approve an entity as a foreign currency settlement bank, matters including the regulation and supervision, creditworthiness, capitalisation, access to liquidity and organisational competencies of the applicant are assessed. These requirements are ongoing. Particular organisational competencies include prescribed operating hours, system reliability, system capacity, outage reporting, business continuity, communication links, notifications and outsourcing. In addition, the admission requirements also include the obligation for the foreign currency settlement bank to provide prescribed risk disclosures to parties that hold a foreign currency account

# PFMI Disclosure Framework | Principle 9 | Principle 10

## PFMI/FSS

### PFMI 9 – KEY CONSIDERATION 4

If an FMI conducts money settlements on its own books, it should minimise and strictly control its credit and liquidity risks

*FSS 8.4*

### PFMI 9 – KEY CONSIDERATION 5

An FMI's legal agreements with any settlement banks should state clearly when transfers on the books of individual settlement banks are expected to occur, that transfers are to be final when effected, and that funds received should be transferable as soon as possible, at a minimum by the end of the day and ideally intraday, in order to enable the FMI and its participants to manage credit and liquidity risks

*FSS 8.5*

## HOW ASX SECURITIES SETTLEMENT FACILITIES COMPLY

➤ Not applicable

➤ Not applicable other than for cash transactions in a foreign currency within Austraclear. For those transactions, refer to Regulation 29.4(b). Regulation 14.4A specifies that unsettled cash transactions in a foreign currency are removed from the Austraclear system at the end of the settlement day

### PRINCIPLE 10 – PHYSICAL DELIVERY:

An FMI should clearly state its obligations with respect to the delivery of physical instruments or commodities and should identify, monitor and manage the risks associated with such physical deliveries

Not applicable to ASX's SSFs. No corresponding FSS for SSFs

## PFMI Disclosure Framework | Principle 11

### PRINCIPLE 11 – CENTRAL SECURITIES DEPOSITORIES (CSD):

A CSD should have appropriate rules and procedures to help ensure the integrity of securities issues and minimise and manage the risks associated with the safekeeping and transfer of securities. A CSD should maintain securities in an immobilised or dematerialised form for their transfer by book entry

#### PFMI/FSS

#### PFMI 11 – KEY CONSIDERATION 1

A CSD should have appropriate rules, procedures and controls, including robust accounting practices, to safeguard the rights of securities issuers and holders, prevent the unauthorised creation or deletion of securities, and conduct periodic and at least daily reconciliation of securities issues it maintains

FSS 9.1

#### HOW ASX SECURITIES SETTLEMENT FACILITIES COMPLY

- Austraclear and ASX Settlement have rules, procedures and controls to:
- safeguard the rights of securities issuers and owners; and
- prevent the unauthorised creation or deletion/withdrawal of securities
- A reconciliation of securities issues is conducted on a daily basis

Austraclear:

- Austraclear's rules and procedures adequately address the following issues, in respect of both non-paper securities and dematerialised securities:

#### ➤ Type of title:

- Non-paper securities:
  - » Under the Austraclear Regulations:
    - non-paper securities are debt obligations (or certain rights or interests that are equivalent to debt obligations); and,
    - Austraclear holds non-paper securities as nominee for the owner

Therefore, owners of non-paper securities hold a beneficial interest

#### ➤ Dematerialised securities:

- Under the Austraclear Regulations:
  - » dematerialised securities are electronically recorded debt obligations;
  - » the holder of a dematerialised security has good title provided it is taken in good faith for value and without notice at that time of any defect in title; and,
  - » the rights of a holder of a dematerialised security are equivalent to those which the holder would be entitled to if it held an equivalent paper security

#### ➤ Method of transfer:

- Non-paper securities:
  - » The Austraclear Regulations provide a comprehensive framework for the requirements and conditions relating to the transfer of these securities and related payments

- Dematerialised securities:
  - » The Austraclear Regulations provide a comprehensive framework for the requirements and conditions relating to the transfer of these securities and related payments

➤ **Whether the SSF has any claim over securities:**

- Non-paper securities:
  - » The creditors of Austraclear Limited have no claim over non-paper securities registered by participants in the facility, because Austraclear holds non-paper securities as nominee for the Owners
- Dematerialised securities:
  - » The creditors of Austraclear Limited have no claim over dematerialised securities registered by participants in the facility, because Austraclear has no title in such securities

*ASX Settlement – CHESS Holdings:*

➤ **ASX Settlement's rules and procedures adequately address the following issues: in respect of CHESS Holdings on an electronic CHESS subregister**

➤ **Type of title:**

- Dematerialised securities:
  - » Under the ASX Settlement Operating Rules, legal title is retained by the "Holder" (i.e. the person registered as the legal owner of financial products in a CHESS Holding (account))
- Method of transfer:
  - » The ASX Settlement Operating Rules provide a comprehensive framework for the requirements and conditions relating to the transfer of registered financial products and related payments
- Whether the SSF has any claim over securities:
  - » The creditors of ASX Settlement have no claim over securities in CHESS because ASX Settlement has no title in such securities

# PFMI Disclosure Framework | Principle 11

## PFMI/FSS

### PFMI 11 – KEY CONSIDERATION 2

A CSD should prohibit overdrafts and debit balances in securities accounts

*FSS 9.2*

### PFMI 11 – KEY CONSIDERATION 3

A CSD should maintain securities in an immobilised or dematerialised form for their transfer by book entry. Where appropriate, a CSD should provide incentives to immobilise or dematerialise securities

*FSS 9.3*

### PFMI 11 – KEY CONSIDERATION 4

A CSD should protect assets against custody risk through appropriate rules and procedures consistent with its legal framework

*FSS 9.4*

## HOW ASX SECURITIES SETTLEMENT FACILITIES COMPLY

➤ Austraclear and ASX Settlement do not permit overdrafts and debit balances in their securities accounts

➤ Austraclear and ASX Settlement maintain securities in a dematerialised form for their transfer by book entry

➤ Custody risk (protection of assets against creditor claims through operating rules) – as above, the creditors of Austraclear and ASX Settlement have no claim over securities registered in the facility/ies, because:

- in respect of non-paper securities, Austraclear holds non-paper securities as nominee for the owners; and
- in respect of dematerialised securities in Austraclear and ASX Settlement, the facilities have no title

➤ In addition, a framework of controls limit the risk of loss from negligence, misuse of assets, fraud, poor administration or inadequate recordkeeping. These include regular reporting and reconciliations, authorised signatories and verification, account set-up controls, dual authorisations, leave policies and regular and external audits



# PFMI Disclosure Framework | Principle 11

## PFMI/FSS

### PFMI 11 – KEY CONSIDERATION 5

A CSD should employ a robust system that ensures segregation between its own assets and the securities of its participants, and segregation among the securities of participants. Where supported by the legal framework, the CSD should also support operationally the segregation of securities belonging to a participant's customers on the participant's books and facilitate the transfer of customer holdings

*FSS 9.5*

### PFMI 11 – KEY CONSIDERATION 6

A CSD should identify, measure, monitor and manage its risks from other activities that it may perform; additional tools may be necessary in order to address these risks

*FSS 9.6*

## HOW ASX SECURITIES SETTLEMENT FACILITIES COMPLY

➤ Austraclear and ASX Settlement segregate the securities of their participants and also support operationally the segregation of securities belonging to participants' customers on participants' books and facilitate the transfer of customer holdings

➤ Austraclear and ASX Settlement are included in ASX Group's approach to enterprise-wide risk management

## PFMI Disclosure Framework | Principle 12

### PRINCIPLE 12 – EXCHANGE-OF-VALUE SETTLEMENT SYSTEMS:

If an FMI settles transactions that involve the settlement of two linked obligations (for example, securities or foreign exchange transactions), it should eliminate principal risk by conditioning the final settlement of one obligation upon the final settlement of the other

#### PFMI/FSS

#### PFMI 12 – KEY CONSIDERATION 1

An FMI that is an exchange-of-value settlement system should eliminate principal risk by ensuring that the final settlement of one obligation occurs if and only if the final settlement of the linked obligation also occurs, regardless of whether the FMI settles on a gross or net basis and when finality occurs

*FSS 10.1*

A SSF that is an exchange-of-value settlement system should eliminate principal risk by linking the final settlement of one obligation to the final settlement of the other through an appropriate delivery versus payment (DvP), delivery versus delivery (DvD) or payment versus payment (PvP) settlement mechanism

*FSS 10.2*

#### HOW ASX SECURITIES SETTLEMENT FACILITIES COMPLY

- Neither ASX Settlement nor Austraclear are counterparties to transactions that settle through the settlement facilities and therefore are not exposed to principal risk
  - Principal risk of users of the facilities is managed in the following ways:
    - DvP Model 1 (Austraclear) and DvP Model 3 (Equities – ASX Settlement) settlement systems are used
    - Electronic dematerialised DvP settlement
    - Movement of securities in Austraclear will only occur once a message is received from RITS that the cash leg has settled across ESA accounts
    - Movement of equity securities in CHES from delivering settlement Entrepot accounts to receiving Entrepot accounts will only occur after receipt of a message from RITS to ASX Settlement indicating that cash has settled across ESA accounts
    - See ASX Settlement Operating Rules Section 10
    - See ASX Clear Operating Rules Section 12
    - See Austraclear Regulations Sections 14, 15 and 16
- 
- Neither ASX Settlement nor Austraclear are counterparties to transactions that settle through the settlement facilities and therefore are not exposed to principal risk
  - Principal risk of users of the facilities is managed in the following ways:
    - DvP Model 1 (Austraclear) and DvP Model 3 (Equities – ASX Settlement) settlement systems are used
    - Electronic dematerialised DvP settlement
    - Movement of securities in Austraclear will only occur once a message is received from RITS that the cash leg has settled across ESA accounts
    - Movement of equity securities in CHES from delivering settlement Entrepot accounts to receiving Entrepot accounts will only occur after receipt of a message from RITS to ASX Settlement indicating that cash has settled across ESA accounts
    - See ASX Settlement Operating Rules Section 10
    - See ASX Clear Operating Rules Section 12
    - See Austraclear Regulations Sections 14, 15 and 16

## PFMI Disclosure Framework | Principle 13

### **PRINCIPLE 13 – PARTICIPANT-DEFAULT RULES AND PROCEDURES:**

An FMI should have effective and clearly defined rules and procedures to manage a participant default. These rules and procedures should be designed to ensure that the FMI can take timely action to contain losses and liquidity pressures and continue to meet its obligations

#### PFMI/FSS

##### **PFMI 13 – KEY CONSIDERATION 1**

An FMI should have default rules and procedures that enable the FMI to continue to meet its obligations in the event of a participant default and that address the replenishment of resources following a default

*FSS 11.1*

##### **PFMI 13 – KEY CONSIDERATION 2**

An FMI should publicly disclose key aspects of its default rules and procedures

*FSS 11.2*

##### **PFMI 13 – KEY CONSIDERATION 3**

An FMI should be well prepared to implement its default rules and procedures, including any appropriate discretionary procedures provided for in its rules

*FSS 11.3*

#### HOW ASX SECURITIES SETTLEMENT FACILITIES COMPLY

➤ The ASX Operating Rules detail the powers and actions available to a SSF in the event of a default

➤ The ASX operating rule framework places an obligation on all ASX Settlement and Austraclear Participants to self-report to ASX if they become aware of any circumstances which may prevent them being able to continue their obligations as a settlement participant in those facilities

➤ ASX Settlement has issued guidance on participant suspensions and terminations

➤ A PIRC is called upon an incident with a Participant becoming apparent

➤ The ASX Operating Rules detail the powers and actions available to a SSF in the event of a default

# PFMI Disclosure Framework | Principle 13 | Principle 14

PFMI/FSS

HOW ASX SECURITIES SETTLEMENT FACILITIES COMPLY

## PFMI 13 – KEY CONSIDERATION 4

An FMI should involve its participants and other stakeholders in the testing and review of the FMI's default procedures, including any close out procedures. Such testing and review should be conducted at least annually and following material changes to the rules and procedures to ensure that they are practical and effective

*FSS 11.4*

➤ Not applicable for the SSFs

A SSF should demonstrate that its default management procedures take appropriate account of interests in relevant jurisdictions and, in particular, any implications for pricing, liquidity and stability in relevant financial markets

*FSS 11.5*

➤ Not applicable for the SSFs

## PRINCIPLE 14 – SEGREGATION AND PORTABILITY:

A CCP should have rules and procedures that enable the segregation and portability of positions of a participant's customers and the collateral provided to the CCP with respect to those positions

Not applicable to ASX's SSFs. No corresponding FSS for SSFs

## PFMI Disclosure Framework | Principle 15

### PRINCIPLE 15 – GENERAL BUSINESS RISK:

An FMI should identify, monitor and manage its general business risk and hold sufficient liquid net assets funded by equity to cover potential general business losses so that it can continue operations and services as a going concern if those losses materialise. Further, liquid net assets should at all times be sufficient to ensure a recovery or orderly wind-down of critical operations and services

#### PFMI/FSS

##### PFMI 15 – KEY CONSIDERATION 1

An FMI should have robust management and control systems to identify, monitor and manage general business risks, including losses from poor execution of business strategy, negative cash flows or unexpected and excessively large operating expenses

FSS 12.1

##### PFMI 15 – KEY CONSIDERATION 2

An FMI should hold liquid net assets funded by equity (such as common stock, disclosed reserves or other retained earnings) so that it can continue operations and services as a going concern if it incurs general business losses. The amount of liquid net assets funded by equity an FMI should hold should be determined by its general business risk profile and the length of time required to achieve a recovery or orderly wind-down, as appropriate, of its critical operations and services if such action is taken

FSS 12.2

#### HOW ASX SECURITIES SETTLEMENT FACILITIES COMPLY

- ASX's SSFs have robust management and control systems to identify, monitor and manage their general business risks
  - Business unit risk profiling is conducted twice yearly. Sources of business risk and their potential impact on operations and services are identified and assessed. Potential impacts on cash flow, liquidity and capital position are analysed
  - Annual financial planning and budgeting processes are in place. Major loss analysis is undertaken periodically. Capital forecasting and cash flow sensitivity analysis is undertaken and presented to the Capital & Liquidity Committee (CALCO) every quarter
- 
- ASX has set aside capital for operational and business risk across the two SSFs if they incur general business losses. Each SSF has a separate allocation - \$112.1 million for ASX Settlements and \$113.6 million for Austraclear - for business risk capital that is explicitly made available to the SSFs from ASX Limited
  - In determining the sufficiency of the operational and business risk capital set aside for ASX's SSFs, ASX has adopted a methodology that applies a capital charge for operational and business risk to the value of securities held in the facility. The calculated percentage of required risk resources declines as the level of assets increases – recognising that a significant part of the risk resources required will represent a minimum fixed amount. At the ASX Limited level, the total capital held has been determined noting that the two facilities' are uncorrelated and so they will not both require their allocated risk funds at the same time
  - ASX's SSF business/ operational risk capital is determined and reviewed by CALCO periodically and monitored quarterly
  - Annual financial forecasts, budgets, major loss scenario assessments etc. are undertaken to ensure the SSFs have adequate liquid assets to continue as a going concern should business risks eventuate

## PFMI Disclosure Framework | Principle 15

### PFMI/FSS

#### PFMI 15 – KEY CONSIDERATION 3

An FMI should maintain a viable recovery or orderly wind-down plan and should hold sufficient liquid net assets funded by equity to implement this plan.

At a minimum, an FMI should hold liquid net assets funded by equity equal to at least six months of current operating expenses. These assets are in addition to resources held to cover participant defaults or other risks covered under the financial resources principles. However, equity held under international risk-based capital standards can be included where relevant and appropriate to avoid duplicate capital requirements

*FSS 12.3*

#### PFMI 15 – KEY CONSIDERATION 4

Assets held to cover general business risk should be of high quality and sufficiently liquid in order to allow the FMI to meet its current and projected operating expenses under a range of scenarios, including in adverse market conditions

*FSS 12.4*

### HOW ASX SECURITIES SETTLEMENT FACILITIES COMPLY

- The SSFs have developed recovery plans based on existing powers. The SSFs have commenced work to develop a more comprehensive recovery plan in line with forthcoming CPMI-IOSCO guidance on FMI recovery planning, released in October 2014
  - General business risk capital is held on behalf of the SSFs at the ASX Group level to ensure that it cannot be applied to meet losses caused by a participant default. A group-wide capital buffer provides protection to allocated business risk capital against potential losses sustained elsewhere in the group. This arrangement has been included in the ASX Group Support Agreement
  - The amount of operational and business risk capital set aside for the SSFs has been estimated as the capital required to cover six months of current operating expenses, with an additional buffer to allow for future growth. These funds are also sufficient to cover the estimated largest general business loss that the SSFs may incur. Loss scenarios considered include closure due to external events such as pandemics, the fraudulent redirection of payments, or the unauthorised transfer of funds
- 
- The assets held to cover general business risks are liquid net assets funded by equity and reserves
  - The liquid net assets comprise at call and fixed term bank deposits, bank bills and negotiable certificates of deposits
  - The ASX Investment Mandate sets out allowed asset types and liquidity limits. Compliance with the mandate is reviewed quarterly by CALCO and approved by the Board

## PFMI Disclosure Framework | Principle 15

PFMI/FSS

### PFMI 15 – KEY CONSIDERATION 5

An FMI should maintain a viable plan for raising additional equity should its equity fall close to or below the amount needed. This plan should be approved by the board of directors and updated regularly

FSS 12.5

HOW ASX SECURITIES SETTLEMENT FACILITIES COMPLY

- ASX Limited manages its operational and business risk capital at the group level. The ASX Limited Board monitors the ongoing capital adequacy of the ASX Group as part of its regular capital planning activities. The Board determines the most appropriate means of raising additional capital when needed, giving due consideration to prevailing market conditions and available alternative financing mechanisms. For example, in mid-2013 ASX Limited conducted a capital raising in the form of a \$553 million share entitlement offer, with the bulk of the funds being used to increase the risk capital and default funds of the CS facilities. Recapitalisation processes will be reviewed and integrated with broader recovery planning arrangements following the release of CPMI-IOSCO guidance referenced in SSF Standard 12.3

## PFMI Disclosure Framework | Principle 16

### PRINCIPLE 16 – CUSTODY AND INVESTMENT RISKS:

An FMI should safeguard its own and its participants' assets and minimise the risk of loss on and delay in access to these assets. An FMI's investments should be in instruments with minimal credit, market and liquidity risks

#### PFMI/FSS

##### PFMI 16 – KEY CONSIDERATION 1

An FMI should hold its own and its participants' assets at supervised and regulated entities that have robust accounting practices, safekeeping procedures and internal controls that fully protect these assets

*FSS 13.1*

##### PFMI 16 – KEY CONSIDERATION 2

An FMI should have prompt access to its assets and the assets provided by participants, when required

*FSS 13.2*

##### PFMI 16 – KEY CONSIDERATION 3

An FMI should evaluate and understand its exposures to its custodians, taking into account the full scope of its relationships with each

*FSS 13.3*

##### PFMI 16 – KEY CONSIDERATION 4

An FMI's investment strategy should be consistent with its overall risk management strategy and fully disclosed to its participants, and investments should be secured by, or be claims on, high-quality obligors. These investments should allow for quick liquidation with little, if any, adverse price effect

*FSS 13.4*

#### HOW ASX SECURITIES SETTLEMENT FACILITIES COMPLY

- Austraclear's cash assets are invested in accordance with the Austraclear Investment Mandate. It does not have non-cash assets
  - ASX Settlement does not have cash or non-cash assets
- 
- Austraclear's cash assets are invested in accordance with the Austraclear Investment Mandate which defines its liquidity requirements. It does not have non-cash assets
  - Austraclear and ASX Settlement have no legal rights to access Participants' assets. They can, however, facilitate movements of Participants' assets through Austraclear and CHES, if required
- 
- ASX's SSFs do not use the services of external custodians
- 
- Austraclear's cash assets are invested in accordance with the Austraclear Investment Mandate which defines its liquidity requirements. It does not have non-cash assets
  - ASX Settlement does not have investments
  - ASX Settlement does not have cash or non-cash assets



## PFMI Disclosure Framework | Principle 17

### PRINCIPLE 17 – OPERATIONAL RISK:

An FMI should identify the plausible sources of operational risk, both internal and external, and mitigate their impact through the use of appropriate systems, policies, procedures and controls. Systems should be designed to ensure a high degree of security and operational reliability and should have adequate, scalable capacity. Business continuity management should aim for timely recovery of operations and fulfilment of the FMI's obligations, including in the event of a wide-scale or major disruption

#### PFMI/FSS

#### PFMI 17 – KEY CONSIDERATION 1

An FMI should establish a robust operational risk management framework with appropriate systems, policies, procedures and controls to identify, monitor and manage operational risks

FSS 14.1

#### PFMI 17 – KEY CONSIDERATION 2

An FMI's board of directors should clearly define the roles and responsibilities for addressing operational risk and should endorse the FMI's operational risk management framework. Systems, operational policies, procedures and controls should be reviewed, audited and tested periodically and after significant changes

FSS 14.2

#### HOW ASX SECURITIES SETTLEMENT FACILITIES COMPLY

- ASX's SSFs adopt ASX's framework for risk management which is described in its Enterprise Risk Management Policy. This policy outlines the overall risk environment in the ASX Group; the objectives of risk management policies; the process by which risks are identified and assessed; the controls in place to detect and mitigate risks; and how risks are monitored and communicated. ASX's stated tolerance for financial, operational, legal and regulatory risks is 'very low'
  - Specific policies are in place across key operational risks. Systems, procedures and controls are in place to support operational processes
  - ASX's SSFs integrate commercial standards into their operational risk management frameworks. For instance, the risk management framework is regularly assessed against the international standard ISO 31000 Risk Management – Principles and Guidelines. The Business Continuity Framework has been prepared with reference to the Business Continuity Institute's Good Practice Guidelines, the British Standard BS, and ISO International Standard on business continuity. The ISO [Information Security Management System \(ISMS\)](#) standard has also been integrated into the technology risk management framework and an annual comparative assessment is completed. The ASX internal compliance framework has been benchmarked to the AS Australian Standard Compliance Program. The ASX Fraud Control Policy references AS Australian Standard on Fraud and Corruption Control
- 
- The ASX Board has endorsed the ASX Enterprise Risk Management Policy and framework which assigns specific risk responsibilities across the ASX Group, including to the ASX Limited Board of Directors, the Audit and Risk Committee, the Enterprise Risk Management Committee, the General Manager, Enterprise Risk and managers of individual departments. The Settlement Boards oversee the ASX SSF operational risks as per carve out in the ARC Charter
  - The Enterprise Risk Management Committee, comprising executives from across the departments, is responsible for enterprise risk management policy and reviewing controls, processes and procedures to identify and manage risks. This committee is also responsible for formally approving significant operational risk policies prepared by individual departments
  - Individual departments are responsible for: identifying business-specific risks; applying controls; maintaining risk management systems; reporting on the effectiveness of risk controls; and implementing enhancements and taking remedial action as appropriate. Each department is required to maintain a record of its risk profile, reviewing this on a six-monthly basis and updating as appropriate. Policies are formally reviewed periodically. More frequent reviews are undertaken where there are potential changes to technology, legal or regulatory requirements, or business drivers
  - Policies and procedures are the subject of internal and external review. ASX's Internal Audit department routinely monitors compliance with operational policy, reporting to the Audit and Risk Committee on a quarterly basis. Audit findings may prompt a review of policy, which would be conducted in consultation with key stakeholders. Technology-related security policy is considered by external auditors annually

# PFMI Disclosure Framework | Principle 17

PFMI/FSS

HOW ASX SECURITIES SETTLEMENT FACILITIES COMPLY

## PFMI 17 – KEY CONSIDERATION 3

An FMI should have clearly defined operational reliability objectives and should have policies in place that are designed to achieve those objectives

FSS 14.3

## PFMI 17 – KEY CONSIDERATION 4

An FMI should ensure that it has scalable capacity adequate to handle increasing stress volumes and to achieve its service-level objectives

NO CORRESPONDING FSS

## PFMI 17 – KEY CONSIDERATION 5

An FMI should have comprehensive physical and information security policies that address all potential vulnerabilities and threats

NO CORRESPONDING FSS

- The ASX Project Framework and separate Change Management Procedures include comprehensive checks to ensure changes are implemented effectively
- Clearly defined operational objectives are in place. The monthly Key Indicators Report summaries performance against system availability targets and other measures such as critical system capacity and description of any incidents. The Monthly Critical System capacity report includes an assessment of the headroom remaining on peak values for each critical system
- The actual capacity and performance of SSF systems is tested on an on-going basis. A required level of redundant capacity is taken into account. There are tools/controls in place that are used to monitor, review and test the capacity and performance of the systems
- The system's performance is reported regularly to the CS Boards and to the RBA every quarter
- The SSFs' physical and information security policies are reviewed and assessed annually. The ASX Information System Security Policy recognises that employees, contractors and consultants have an obligation and a significant role to play in helping protect the information systems resources of ASX
- Availability targets are documented and defined formally for critical services. The SSF services are required to meet a minimum availability target of 99.8 per cent (99.9% for the Austraclear System as required under its Step-in and Service Agreement with the Reserve Bank)
- ASX's SSFs are designed to have scalable capacity which is maintained at levels to support increasing volumes and service availability objectives. The guideline for target capacity is to maintain 50% over peak recorded daily volumes, with the ability to increase to 100% over peak within six months. Monthly reviews of current and projected capacity requirements are undertaken
- The ASX Employee Physical Security Policy outlines the SSF requirements in regards to the protection of people, information and other assets and to ensure security risks from crime, activism and terrorism are minimised
- The ASX Information Security Policy Framework includes a range of policies designed to safeguard the SSFs technology environment against threats which may disable or affect its effectiveness. Policies and standards cover firewalls, encryption, virus protection, passwords, removable media, email, internet and other risks

## PFMI Disclosure Framework | Principle 17

### PFMI/FSS

#### PFMI 17 – KEY CONSIDERATION 6

An FMI should have a business continuity plan that addresses events posing a significant risk of disrupting operations, including events that could cause a wide-scale or major disruption. The plan should incorporate the use of a secondary site and should be designed to ensure that critical information technology systems can resume operations within two hours following disruptive events. The plan should be designed to enable the FMI to complete settlement by the end of the day of the disruption, even in case of extreme circumstances. The FMI should regularly test these arrangements

*NO CORRESPONDING FSS*

A SSF should ensure that it can reliably access and utilise well-trained and competent personnel, as well as technical and other resources. These arrangements should be designed to ensure that all key systems are operated securely and reliably in all circumstances, including where a related body becomes subject to external administration

*FSS 14.4*

### HOW ASX SECURITIES SETTLEMENT FACILITIES COMPLY

- ASXs SSFs maintain business continuity plans detailing the operational responses to a facility disruption. The plans identify and address events that pose a significant risk of disrupting operations, e.g. events such as technology failure, staff unavailability, pandemic, greater CBD inaccessibility and primary site & systems unusable. These plans are updated annually
  - ASX maintains both primary and backup data centres, and its business continuity arrangements are designed to achieve failover to the backup site data centre within two hours. Front-end servers handling communications with participants are configured to provide automatic failover across sites. Failover of the more critical data servers will generally take place within an hour under the control of management; however, the disruption to participants in such a case is reduced due to the high degree of redundancy in the front-end system components, which in most circumstances will maintain communications with external systems and queue transactions until the data servers are reactivated
  - The SSFs regularly test their business continuity arrangements. Dual site operational teams across the primary and alternate secondary operations sites effectively test backup operational processes on a continuous basis. For those teams not located across both sites, connectivity and procedural testing of the backup secondary site are performed. Live tests, where clearing services are provided in real time from the alternate backup data centre site, have been conducted on a 1-2 year cycle and are moving to yearly
  - Austraclear has alternative arrangements in place (for example, manual paper-based procedures) to allow for the processing of time-critical transactions in extreme circumstances, which have been tested and agreed with the RBA
- 
- The SSFs employ sufficient well-qualified personnel. Appropriate human resource policies are implemented to mitigate the effects of high rates of staff turnover and key-person risk. Examples of policies in place are: Workplace Health & Safety, Recruitment, Secondment & Transfers, Ethics & Conduct and Security – Workplace Surveillance and Information Security
  - Within the ASX group structure, most operational resources are provided by ASX Operations Limited, a subsidiary of ASX Limited, under a contractual Support Agreement. In the event that ASX Operations Limited became subject to external administration, to the extent permissible by law, provisions within the Support Agreement provide for the SSFs to retain the use of operational resources
  - Major projects are overseen by the Enterprise Portfolio Steering Committee (EPSC), which is comprised of representatives of the Group Executive. The EPSC is tasked with ensuring that ASX has sufficient well-qualified project personnel. Project management of major projects is undertaken by the Project Management Office (PMO). For projects affecting core systems the PMO rates projects to ensure that they receive appropriate access to resources

## PFMI Disclosure Framework | Principle 17

### PFMI/FSS

#### PFMI 17 – KEY CONSIDERATION 7

An FMI should identify, monitor and manage the risks that key participants, other FMIs and service and utility providers might pose to its operations. In addition, an FMI should identify, monitor and manage the risks its operations might pose to other FMIs

*FSS 14.5*

A participant of a SSF should have complementary operational and business continuity arrangements that are appropriate to the nature and size of the business undertaken by that participant. The SSF's rules and procedures should clearly specify operational requirements for participants

*FSS 14.6*

A SSF should have a business continuity plan that addresses events posing a significant risk of disrupting operations, including events that could cause a wide-scale or major disruption. The plan should incorporate the use of a secondary site and should be designed to ensure that critical information technology systems can resume operations within two hours following disruptive events. Business continuity arrangements should provide appropriate redundancy of critical systems and appropriate mitigants for data loss. The business continuity plan should be designed to enable the SSF to facilitate settlement by the end of the day of the disruption, even in case of extreme circumstances. The SSF should regularly test these arrangements

*FSS 14.7*

### HOW ASX SECURITIES SETTLEMENT FACILITIES COMPLY

- SSF six monthly risk profiling considered the risk they pose to external parties and vice-versa
  - The SSFs inform the RBA of major risks and dependencies as part of their active engagement programme
- 
- The SSFs consider BCP arrangements for their participants as part of the participant's admission and on-going operating rule requirements. The obligations are broadly similar across the SSFs, though may vary slightly (e.g. the BCP self-assessment form required to be completed as part of the admission process) given the differing nature of the facilities. Participants are required to have arrangements which are comparable to the nature and size of their business as a participant. As a guide, Participants should be in a position to be able to continue operating their settlement functions within 2-4 hours after a disruption
  - The SSFs' Operating Rules have criteria for critical participants which specify operational requirements
- 
- SSF BCPs are in place, and include the recovery and resumption of critical operations within 2 hours following an incident. The BCPs identify and address events that pose a significant risk of disrupting operations, e.g. events such as technology failure, staff unavailability, pandemic, greater CBD inaccessibility and primary site and systems being unable to be used
  - A 3-site model is in place with separate secondary sites for operations recovery and the data centre
  - Technology recovery arrangements include inter- and intra-site system redundancy and data recovery
  - Comprehensive BCM testing is conducted every 1-2 years
  - Participants are involved in testing each time the SSFs roll out a major change or new system
  - Connectivity testing with the clients is undertaken regularly. An external testing environment is in place

## PFMI Disclosure Framework | Principle 17

### PFMI/FSS

A SSF should consider making contingency testing compulsory for the largest participants to ensure they are operationally reliable and have in place tested contingency arrangements to deal with a range of operational stress scenarios that may include impaired access to the SSF

*FSS 14.8*

A SSF that relies upon, outsources some of its operations to, or has other dependencies with a related body, another FMI or a third-party service provider (for example, data processing and information systems management) should ensure that those operations meet the resilience, security and operational performance requirements of these SSF Standards and equivalent requirements of any other jurisdictions in which it operates

*FSS 14.9*

All of a SSF's outsourcing or critical service provision arrangements should provide rights of access to the Reserve Bank to obtain sufficient information regarding the service provider's operation of any critical functions provided. A SSF should consult with the Reserve Bank prior to entering into an outsourcing or service provision arrangement for critical functions

*FSS 14.10*

### HOW ASX SECURITIES SETTLEMENT FACILITIES COMPLY

- The SSFs' Operating Rules include arrangements to ensure BCP arrangements are appropriate for the nature and size of the participants business. These are assessed at time of admission and periodically as part of ASX Compliance monitoring and enforcement procedures. The guidance issued by ASX Settlement on these obligations includes guidance that a participant should test its disaster recovery and business continuity arrangements at least once annually and as soon as practicable following a material change to its business or its disaster recovery business continuity arrangements
- ASX has developed a set of standard clauses for inclusion in contracts with third-party critical service providers to the SSFs. The clauses seek to ensure that the agreements meet the resilience, security and operational performance requirements of the FSS
- In particular, the clauses allow the RBA to gather information from the service provider about the operation of critical functions and, in the event that the RBA concludes that the terms of the service provider agreement do not meet FSS requirements, the clauses require the service provider to negotiate acceptable new terms with ASX
- Furthermore, the standard clauses allow the RBA to take steps to remedy a breach to a contract with a critical service provider to the SSFs (or negotiate a replacement contract) if the contract may be terminated as a consequence of insolvency of an ASX entity
- ASX is applying these clauses to all new agreements with critical service providers, and has incorporated them into all of its key existing service agreements
- ASX's standard clauses for agreements with critical service providers to the SSFs require the provider to grant reasonable access to the RBA in respect of information relating to its operation of a critical function. ASX is applying these clauses to all new agreements with critical service providers to the SSFs, and has incorporated them into agreements with key existing critical service providers to the SSFs

## PFMI Disclosure Framework | Principle 17

### PFMI/FSS

A SSF should organise its operations, including any outsourcing or critical service provision arrangements, in such a way as to ensure continuity of service in a crisis and to facilitate effective crisis management actions by the Reserve Bank or other relevant authorities. These arrangements should be commensurate with the nature and scale of the SSF's operations

*FSS 14.11*

### HOW ASX SECURITIES SETTLEMENT FACILITIES COMPLY

- Standard clauses in the SSF agreements with critical service providers require that those providers give the RBA notice of any intention to terminate the agreement as a consequence of SSF failure to pay fees, or in the event of the insolvency of a SSF or any other relevant ASX entity. This is intended to give the RBA an opportunity to take action to remedy the breach on behalf of the SSF or take other steps to ensure service provision
- The SSF's arrangements to ensure continuity of operations in the event of a crisis will be aligned to the new resolution regime for FMIs once introduced to Australian law

# PFMI Disclosure Framework | Principle 18

## PRINCIPLE 18 – ACCESS AND PARTICIPATION REQUIREMENTS:

An FMI should have objective, risk-based and publicly disclosed criteria for participation, which permit fair and open access

### PFMI/FSS

#### PFMI 18 – KEY CONSIDERATION 1

An FMI should allow for fair and open access to its services, including by direct and, where relevant, indirect participants and other FMIs, based on reasonable risk-related participation requirements

FSS 15.1

#### PFMI 18 – KEY CONSIDERATION 2

An FMI's participation requirements should be justified in terms of the safety and efficiency of the FMI and the markets it serves, be tailored to and commensurate with the FMI's specific risks, and be publicly disclosed. Subject to maintaining acceptable risk control standards, an FMI should endeavour to set requirements that have the least restrictive impact on access that circumstances permit

FSS 15.2

### HOW ASX SECURITIES SETTLEMENT FACILITIES COMPLY

- In consultation with industry stakeholders and Australian regulators, ASX has developed a [Code of Practice](#) (the Code) for the clearing and settlement of cash equities (ASX Clear and ASX Settlement only) in Australia which commenced operation on 9 August 2013. Under the Code, ASX commits, among other things, to transparent and non-discriminatory terms of access to cash equities clearing and settlement services. Refer to section 4 of the Code for further details regarding standard access to these services
  - The document: "A guide to becoming an ASX Participant" details the range of Participation choices available for prospective Participants, and can be found on the ASX website at: [https://www.asxonline.com/intradoc-cgi/groups/public/documents/participantapplicationkitsfe/asx\\_022625.pdf](https://www.asxonline.com/intradoc-cgi/groups/public/documents/participantapplicationkitsfe/asx_022625.pdf)
  - Relevant Operating Rule oversight can be found at: [www.asx.com.au/regulation/rules-guidance-notes-and-waivers.htm](http://www.asx.com.au/regulation/rules-guidance-notes-and-waivers.htm)
    - Refer ASX Settlement:
      - » Section 4: Participation in the Settlement Facility
      - » Section 6: Rights and Obligations of Participants
    - Refer Austraclear:
      - » Regulations 2-5
- 
- The document: "A guide to becoming an ASX Participant" details the range of Participation choices available for prospective Participants, and can be found on the ASX website at: [https://www.asxonline.com/intradoc-cgi/groups/public/documents/participantapplicationkitsfe/asx\\_022625.pdf](https://www.asxonline.com/intradoc-cgi/groups/public/documents/participantapplicationkitsfe/asx_022625.pdf). Relevant Operating Rule oversight can be found at: [www.asx.com.au/regulation/rules-guidance-notes-and-waivers.htm](http://www.asx.com.au/regulation/rules-guidance-notes-and-waivers.htm)
    - Refer ASX Settlement:
      - » Section 4: Participation in the Settlement Facility
      - » Section 6: Rights and Obligations of Participants
    - Refer Austraclear:
      - » Regulations 2-5

## PFMI Disclosure Framework | Principle 18

PFMI/FSS

### PFMI 18 – KEY CONSIDERATION 3

An FMI should monitor compliance with its participation requirements on an ongoing basis and have clearly defined and publicly disclosed procedures for facilitating the suspension and orderly exit of a participant that breaches, or no longer meets, the participation requirements

FSS 15.3

HOW ASX SECURITIES SETTLEMENT FACILITIES COMPLY

- Relevant documents which are disclosed on the ASX website include:
  - Default Management:
    - » [www.asx.com.au/documents/clearing/clearing-participant-default-an-overview.pdf](http://www.asx.com.au/documents/clearing/clearing-participant-default-an-overview.pdf)
  - Monitoring and Enforcing Compliance:
    - » Monitoring: [www.asx.com.au/documents/about/operating-rules-monitoring.pdf](http://www.asx.com.au/documents/about/operating-rules-monitoring.pdf)
    - » Enforcing: [www.asx.com.au/documents/about/operating-rules-enforcement.pdf](http://www.asx.com.au/documents/about/operating-rules-enforcement.pdf)
- Relevant Operating Rule oversight can be found at: [www.asx.com.au/regulation/rules-guidance-notes-and-waivers.htm](http://www.asx.com.au/regulation/rules-guidance-notes-and-waivers.htm)
  - Refer ASX Settlement: Section 3
  - Refer Austraclear: Regulation 6



## PFMI Disclosure Framework | Principle 19

### PRINCIPLE 19 – TIERED PARTICIPATION ARRANGEMENTS:

An FMI should identify, monitor and manage the material risks to the SSF arising from tiered participation arrangements

#### PFMI/FSS

##### PFMI 19 – KEY CONSIDERATION 1

An FMI should ensure that its rules, procedures and agreements allow it to gather basic information about indirect participation in order to identify, monitor and manage any material risks to the FMI arising from such tiered participation arrangements

*FSS 16.1*

##### PFMI 19 – KEY CONSIDERATION 2

An FMI should identify material dependencies between direct and indirect participants that might affect the FMI

*FSS 16.2*

##### PFMI 19 – KEY CONSIDERATION 3

An FMI should identify indirect participants responsible for a significant proportion of transactions processed by the FMI and indirect participants whose transaction volumes or values are large relative to the capacity of the direct participants through which they access the FMI in order to manage the risks arising from these transactions

*FSS 16.3*

#### HOW ASX SECURITIES SETTLEMENT FACILITIES COMPLY

- The ASX operating rule framework allows ASX to request information on any activities covered under the ASX operating rule framework
  - All non CCP related settlements between Participants in either ASX Settlement or Austraclear are on a bi-lateral basis (i.e. not novated to the SSF) and therefore there is no risk to either SSF
- 
- All non CCP related settlements between Participants in either ASX Settlement or Austraclear are on a bi-lateral basis (i.e. not novated to the SSF) and therefore, in the event of a default of one settlement participant, the transaction would be automatically cancelled
- 
- All non CCP related settlements between Participants in either ASX Settlement or Austraclear are on a bi-lateral basis (i.e. not novated to the SSF) and therefore, in the event of a default of one settlement participant, the transaction would be automatically cancelled

## PFMI Disclosure Framework | Principle 19

### PFMI/FSS

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#### PFMI 19 – KEY CONSIDERATION 4

An FMI should regularly review risks arising from tiered participation arrangements and should take mitigating action when appropriate

*FSS 16.4*

### HOW ASX SECURITIES SETTLEMENT FACILITIES COMPLY

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- All non CCP related settlements between Participants in either ASX Settlement or Austraclear are on a bi-lateral basis (i.e. not novated to the SSF) and therefore, in the event of a default of one settlement participant, the transaction would be automatically cancelled

# PFMI Disclosure Framework | Principle 20

## PRINCIPLE 20 – FMI LINKS:

An FMI that establishes a link with one or more FMIs should identify, monitor and manage link-related risks

### PFMI/FSS

#### PFMI 20 – KEY CONSIDERATION 1

Before entering into a link arrangement, and on an ongoing basis once the link is established, an FMI should identify, monitor and manage all potential sources of risk arising from the link arrangement. Link arrangements should be designed such that each FMI is able to observe the other PFMI

*FSS 17.1*

#### PFMI 20 – KEY CONSIDERATION 2

A link should have a well-founded legal basis, in all relevant jurisdictions, that supports its design and provides adequate protection to the FMIs involved in the link

*FSS 17.2*

#### PFMI 20 – KEY CONSIDERATION 3

Linked CSDs should measure, monitor, and manage the credit and liquidity risks arising from each other. Any credit extensions between CSDs should be covered fully with high-quality collateral and be subject to limits

*NO CORRESPONDING FSS*

### HOW ASX SECURITIES SETTLEMENT FACILITIES COMPLY

- ASX Settlement has a link to ASX Clear in order to settle novated cash equity market transactions. ASX Settlement is not exposed to financial risk through this link and the operational risk inherent in the link is managed under ASX's group-wide framework for operational risk management
  - Austraclear maintains three links:
    - ASX Clear, for settlement of cash margins;
    - ASX Clear (Futures), for settlement of cash margins, for lodgement of AUD-denominated non-cash collateral, and for settlement of 90-day bank bill futures; and,
    - Clearstream, in relation to Euro entitlements managed in Austraclear
    - In addition, Austraclear has links with ASX Collateral Management Services Pty Limited which has links with Clearstream, in relation to ASX's Collateral Management Service
  - Austraclear is not exposed to financial risk through these links and the operational risk inherent in the links is managed under ASX's group-wide framework for operational risk management
- 
- The legal basis of the link is supported by contractual arrangements including, where applicable, the operating rules of the FMI
- 
- Not applicable – CSD arrangements do not involve credit or liquidity requirements

# PFMI Disclosure Framework | Principle 20

## PFMI/FSS

### PFMI 20 – KEY CONSIDERATION 4

Provisional transfers of securities between linked CSDs should be prohibited or, at a minimum, the retransfer of provisionally transferred securities should be prohibited prior to the transfer becoming final

*NO CORRESPONDING FSS*

### PFMI 20 – KEY CONSIDERATION 5

An investor CSD should only establish a link with an issuer CSD if the arrangement provides a high level of protection for the rights of the investor CSD's participants

*NO CORRESPONDING FSS*

### PFMI 20 – KEY CONSIDERATION 6

An investor CSD that uses an intermediary to operate a link with an issuer CSD should measure, monitor, and manage the additional risks (including custody, credit, legal, and operational risks) arising from the use of the intermediary

*NO CORRESPONDING FSS*

## HOW ASX SECURITIES SETTLEMENT FACILITIES COMPLY

➤ Not applicable – CSD arrangements do not involve the transfer of securities

➤ This obligation is not applicable to the SSFs

➤ This obligation is not applicable to the SSFs

## PFMI Disclosure Framework | Principle 20

### PFMI/FSS

Where relevant to its operations in Australia, a SSF should consult with the Reserve Bank prior to entering into a link arrangement with another FMI

*FSS 17.3*

A SSF operating a central securities depository that links to another central securities depository should measure, monitor and manage the credit and liquidity risks arising from such links. Any credit extended to the linked central securities depository should be covered fully with high-quality collateral and be subject to limits

*FSS 17.4*

Provisional transfers of securities between a SSF operating a central securities depository and another central securities depository should be prohibited or, at a minimum, the retransfer of provisionally transferred securities should be prohibited prior to the transfer becoming final

*FSS 17.5*

### HOW ASX SECURITIES SETTLEMENT FACILITIES COMPLY

➤ The RBA has been involved in the consultation and design of ASX's collateral management service (which has expanded on links with Clearstream) which went live (technically) in July 2013

➤ Not applicable – CSD arrangements do not involve credit or liquidity requirements

➤ Not applicable – CSD arrangements do not involve transfer of securities

## PFMI Disclosure Framework | Principle 20

PFMI/FSS

HOW ASX SECURITIES SETTLEMENT FACILITIES COMPLY

**PFMI 20 – KEY CONSIDERATION 7 & 8**

*NO CORRESPONDING FSS*

Applicable to CCPs only

**PFMI 20 – KEY CONSIDERATION 9**

*NO CORRESPONDING FSS*

Applicable to Trade Repositories only

# PFMI Disclosure Framework | Principle 21

## PRINCIPLE 21 – EFFICIENCY AND EFFECTIVENESS :

An FMI should be efficient and effective in meeting the requirements of its participants and the markets it serves

### PFMI/FSS

#### PFMI 21 – KEY CONSIDERATION 1

An FMI should be designed to meet the needs of its participants and the markets it serves, in particular, with regard to choice of a clearing and settlement arrangement; operating structure; scope of products cleared, settled, or recorded; and use of technology and procedures

*NO CORRESPONDING FSS*

#### PFMI 21 – KEY CONSIDERATION 2

An FMI should have clearly defined goals and objectives that are measurable and achievable, such as in the areas of minimum service levels, risk management expectations, and business priorities

*NO CORRESPONDING FSS*

#### PFMI 21 – KEY CONSIDERATION 3

An FMI should have established mechanisms for the regular review of its efficiency and effectiveness

*NO CORRESPONDING FSS*

### HOW ASX SECURITIES SETTLEMENT FACILITIES COMPLY

- ASX Settlement and Austraclear provide a range of participation choices to suit the market. They also tailor the application process and arrangements to the services available
  - Information on becoming an ASX Settlement Participant is included in, "[A Guide to Becoming an ASX Participant](#)" on the ASX website
  - Information on Austraclear admission and participation and on becoming an Austraclear Participant is included here: [www.asx.com.au/settlement/asx-austraclear.htm](http://www.asx.com.au/settlement/asx-austraclear.htm)
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- In terms of service level agreements, ASX Settlement has a minimum availability target of 99.8 per cent and a minimum capacity headroom target of 50 per cent of total capacity, while Austraclear has a 99.9 per cent minimum availability target stipulated in Austraclear's 'Step-in and Service Agreement' with the RBA
  - In terms of risk management expectations, ASX Settlement and Austraclear are included in ASX Group's approach to enterprise-wide risk management
  - In terms of business priorities, ASX Settlement and Austraclear are included in ASX Group's business plan/strategy
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- The business plan/strategy noted above is reviewed annually. Customer feedback – from regular customer engagement – also provides a regular review of ASX Settlement and Austraclear's efficiency and effectiveness. Finally, ASX Settlement and Austraclear are subject to annual review by both ASIC and the RBA

## PFMI Disclosure Framework | Principle 22 & 23

### PRINCIPLE 22 – COMMUNICATION PROCEDURES AND STANDARDS:

An FMI should use, or at a minimum accommodate, relevant internationally accepted communication procedures and standards in order to facilitate efficient payment, clearing, settlement, and recording

PFMI/FSS

HOW ASX SECURITIES SETTLEMENT FACILITIES COMPLY

#### PFMI 22 – KEY CONSIDERATION 1

An FMI should use, or at a minimum accommodate, internationally accepted communication procedures and standards

*NO CORRESPONDING FSS*

- Austraclear uses internationally accepted standards (SWIFT); however, CHESSE uses proprietary messaging protocols. While, CHESSE may – dependent on customer feedback under the Code of Practice – be amended so that it also offers the use of SWIFT ISO 20022 standards, such a move needs to be balanced against the impact on the cash equity industry of moving away from CHESSE messaging, which is embedded in brokers' back office systems

### PRINCIPLE 23 – DISCLOSURE OF RULES, KEY PROCEDURES AND MARKET DATA:

An FMI should have clear and comprehensive rules, policies and procedures and should provide sufficient information and data to enable participants to have an accurate understanding of the risks they incur by participating in the SSF. All relevant rules and key policies and procedures should be publicly disclosed

#### PFMI 23 – KEY CONSIDERATION 1

An FMI should adopt clear and comprehensive rules, policies and procedures that are fully disclosed to participants. Relevant rules and key policies and procedures should also be publicly disclosed

*FSS 18.1*

- Clear and comprehensive rules, policies and procedures are publicly disclosed in the following places: [www.asx.com.au/regulation/rules/asx-settlement-operating-rules.htm](http://www.asx.com.au/regulation/rules/asx-settlement-operating-rules.htm) & [www.asx.com.au/regulation/rules/austraclear-regulations.htm](http://www.asx.com.au/regulation/rules/austraclear-regulations.htm)



## PFMI Disclosure Framework | Principle 23

### PFMI/FSS

#### PFMI 23 – KEY CONSIDERATION 2

An FMI should disclose clear descriptions of the system's design and operations, as well as the FMI's and participants' rights and obligations, so that participants can assess the risks they would incur by participating in the FMI

*FSS 18.2*

#### PFMI 23 – KEY CONSIDERATION 3

An FMI should provide all necessary and appropriate documentation and training to facilitate participants' understanding of the FMI's rules, policies and procedures and the risks they face from participating in the FMI

*FSS 18.3*

A SSF should provide all necessary and appropriate documentation and training to facilitate participants' understanding of the SSF's rules, policies and procedures and the risks they face from participating in the SSF

*FSS 18.4*

### HOW ASX SECURITIES SETTLEMENT FACILITIES COMPLY

➤ Clear descriptions of the SSFs' systems, operations and services, together with descriptions of participation in the SSFs are disclosed in the following places:  
[www.asx.com.au/services/settlement/asx-settlement.htm](http://www.asx.com.au/services/settlement/asx-settlement.htm) &  
[www.asx.com.au/services/settlement/austraclear.htm](http://www.asx.com.au/services/settlement/austraclear.htm)

➤ Refer also to "System design and operations" on page 8 of this document

➤ As above

➤ Regular forums and workshops are held with Participants to communicate current and upcoming developments

➤ ASX Operations provides a helpdesk for Participants, covering operational hours

## PFMI Disclosure Framework | Principle 23

### PFMI/FSS

#### PFMI 23 – KEY CONSIDERATION 4

An FMI should publicly disclose its fees at the level of the individual services it offers as well as its policies on any available discounts. The FMI should provide clear descriptions of priced services for comparability purposes

*NO CORRESPONDING FSS*

#### PFMI 23 – KEY CONSIDERATION 5

An FMI should complete regularly and disclose publicly responses to the CPMI-IOSCO Disclosure Framework for Financial Market Infrastructures. An FMI also should, at a minimum, disclose basic risk and activity data

*FSS 18.5*

#### DISCLOSURE OF MARKET DATA BY TRADE REPOSITORIES :

A TR should provide timely and accurate data to relevant authorities and the public in line with their respective needs

This PFMI is not applicable to ASX's SSFs

### HOW ASX SECURITIES SETTLEMENT FACILITIES COMPLY

➤ Fees at the level of individual services offered are disclosed in the following places:  
[https://www.asxonline.com/intradoc-cgi/groups/participant\\_services/documents/information/asx\\_015359.pdf](https://www.asxonline.com/intradoc-cgi/groups/participant_services/documents/information/asx_015359.pdf)  
[www.asx.com.au/documents/settlement/Austraclear-Issue-Administration-Fee-Schedule.pdf](http://www.asx.com.au/documents/settlement/Austraclear-Issue-Administration-Fee-Schedule.pdf)  
[www.asx.com.au/documents/professionals/fee\\_schedule\\_acsl.pdf](http://www.asx.com.au/documents/professionals/fee_schedule_acsl.pdf)  
[www.asx.com.au/documents/professionals/fee\\_schedule\\_acsl.pdf](http://www.asx.com.au/documents/professionals/fee_schedule_acsl.pdf)

➤ ASX's response to the CPMI-IOSCO Disclosure Framework for Financial Market Infrastructures is updated periodically and available on the ASX website at: [www.asx.com.au/documents/regulation/pfmi\\_disclosure\\_framework.pdf](http://www.asx.com.au/documents/regulation/pfmi_disclosure_framework.pdf)

## FSS 19 – REGULATORY REPORTING:

A SSF should inform the Reserve Bank in a timely manner of any events or changes to its operations or circumstances that may materially impact its management of risks or ability to continue operations. A SSF should also regularly provide information to the Reserve Bank regarding its financial position and risk controls on a timely basis

### PFMI/FSS

A SSF should inform the Reserve Bank as soon as reasonably practicable if:

- a. (a) it breaches, or has reason to believe that it will breach:
  - i. i. a SSF Standard; or
  - ii. ii. its broader legislative obligation to do, to the extent that it is reasonably practicable to do so, all things necessary to reduce systemic risk;
- b. it becomes subject to external administration, or has reasonable grounds for suspecting that it will become subject to external administration;
- c. a related body to the SSF becomes subject to external administration, or if the SSF has reasonable grounds for suspecting that a related body will become subject to external administration;
- d. a participant becomes subject to external administration, or if the SSF has reasonable grounds for suspecting that a participant will become subject to external administration;
- e. a participant fails to meet its obligations under the SSF's risk control requirements or has its participation suspended or cancelled because of a failure to meet the SSF's risk control requirements;
- f. it fails to enforce any of its own risk control requirements;
- g. it plans to make significant changes to its risk control requirements or its rules, policies and procedures;

### HOW ASX SECURITIES SETTLEMENT FACILITIES COMPLY

If any of these matters arose, ASX would notify the RBA as soon as reasonably practicable following an incident

Identification and monitoring measures include:

- a. **Ongoing monitoring; formal semi-annual review of FSS compliance obligations**

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- b. **The SSFs' financial position and activities are reviewed with the Settlement Boards every quarter. Externally audited Financial Statements are produced annually**

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- c. **ASX Group, including related entities' financial position is reviewed quarterly by the ASXL Board and the ARC. Externally audited financial statements are produced annually**

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- d. **A Participant Incident Response Committee (PIRC) will be convened and relevant information will be communicated to regulators. Updates will continue to be provided as further information becomes available**

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- e. **A PIRC will be convened and relevant information will be communicated to regulators. Updates will continue to be provided as further information becomes available**

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- f. **Breach of risk controls are escalated to senior risk and operational management. The severity of the breach will determine as to immediate or periodic reporting to regulators**

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- g. **Discussion at the quarterly RBA Executive Liaison meeting and/or the RBA Operations meeting**

## PFMI/FSS

- h. it or a service it relies on from a third party or outsourced provider experiences a significant operational disruption, including providing the conclusions of its post-incident review;
- i. any internal audits or independent external expert reviews are undertaken of its operations, risk management processes or internal control mechanisms, including providing the conclusions of such audits or reviews;
- j. its operations or risk controls are affected, or are likely to be affected, by distress in financial markets;
- k. it has critical dependencies on utilities or service providers, including providing a description of the dependency and an update if the nature of this relationship changes;
- l. it proposes to grant a security interest over its assets (other than a lien, right of retention or statutory charge that arises in the ordinary course of business);
- m. it proposes to incur or permit to subsist any loans from participants or members unless such loans are subordinated to the claims of all other creditors of the SSF; or
- n. any other matter arises which has or is likely to have a significant impact on its risk control arrangements (see also SSF Standards 1.6, 14.10 and 17.3)

FSS 19.1

## HOW ASX SECURITIES SETTLEMENT FACILITIES COMPLY

- h. Any incidents are escalated to senior operational and technical management. Incident reports may be provided to regulators. The severity of the disruption will determine as to immediate or periodic reporting to regulators

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- i. Reviews are provided to regulators, upon request

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- j. Breach, or the potential breach, of risk controls are escalated to senior risk and operational management. The severity will determine as to immediate or periodic reporting to regulators

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- k. Discussion at the RBA quarterly liaison meeting and/or the RBA operational meeting

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- l. No such interests exist

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- m. No such arrangements exist

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- n. The severity will determine as to immediate or periodic reporting to regulators
  - In addition to the above:
    - » information is discussed with the RBA at the quarterly Austraclear meetings and ad hoc meetings and presentations, as required; and,
    - » the RBA Austraclear Step-In Agreement and the Austraclear System Business Operations Plan contain certain provisions relating to regulatory reporting

## PFMI/FSS

An SSF should also provide to the Reserve Bank, on a timely basis:

- a. (a) audited annual accounts;
- b. (b) management accounts on a regular basis, and at least quarterly;
- c. (c) risk management reports, including detailed information on margining and stress testing, on a regular basis, and at least quarterly;
- d. (d) periodic activity, risk and operational data, as agreed with the Reserve Bank; and,
- e. (e) any other information as specified by the Reserve Bank from time to time

*FSS 19.2*

## HOW ASX SECURITIES SETTLEMENT FACILITIES COMPLY

All of the required reports and data are on the deliverable lists of responsible executives within ASX

- a. **Annually audited licensed accounts for ASX Settlement and Austraclear are provided to the RBA**
- b. **Management accounts for ASX Settlement and Austraclear are provided to the RBA quarterly**
- c. **Not applicable to the SSFs**
- d. **FSS-related data is provided to the RBA quarterly**
- e. **Information is discussed with the RBA at the quarterly Executive Liaison meetings, quarterly Operations meetings, quarterly Austraclear meetings, and ad hoc meetings and presentations, as required**