



15 August 2016

Ms Samantha Hettihewa
Manager, Clearing Risk Policy
ASX Limited
Exchange Centre
20 Bridge Street
SYDNEY NSW 2000

By email: samantha.hettihewa@asx.com.au

Dear Ms Hettihewa

ASX Consultation Paper – Changes to Clearing Participant Minimum Core Capital Requirements Approach

The Australian Financial Markets Association (AFMA) represents the entities that are the major clearing participants on the ASX market. This submission presents the feedback we have received from members on the consultation paper in relation to proposed changes to clearing participants' minimum core capital requirements.

As a general principle, AFMA supports initiatives that are aimed at maintaining and enhancing the level of integrity in Australian financial markets, and of the participants in those markets. No AFMA members have expressed concerns about the purpose or intent of the proposed changes.

We are pleased to provide the following comments in response to the consultation paper questions:

Q1. Do you think that the types of activities referred to in this paper as the basis for additional core capital requirements (i.e. level of own account business, the extent of non-ASX business, and the degree of client short ETO activity) are appropriate factors to consider for determining such increased requirements?

A1. Yes, the factors identified by ASX are appropriate for determining an increased capital requirement.

Q2. Are there factors other than number of market participants that that the CP clears for, the level of own account business, the extent of non-ASX business and the degree

of client short ETO activity that ASXCL should take into consideration in determining the minimum core capital requirement for a CP?

A2. An additional factor to consider is the existing levels of counterparty risk.

It has also been noted that clearing by a clearing participant for related bodies corporate should not result in an increased capital requirement.

Q3. Do you have any comments on:

- (a) how to define the type of own account business, non-ASX business, and client short ETO activity that would trigger the additional capital requirements, including any exclusions that should apply; and**
- (b) the de minimis and materiality thresholds that should be used for each such activity to determine the application of the additional capital requirements?**

A3. Please see below:

ETO short option activity

Members support the proposed additional capital requirement for short ETO activity. It has been suggested that the materiality threshold should be initial margin exceeding 10% of core capital. A threshold of \$60 million for additional capital seems high and should perhaps be lower.

Own account business

Clearing error trades should not be considered own account business. Own account business should include activity which exposes the entity to market risk. In that regard hedging transactions or back-to-back transactions that do not result in market risk should not be considered own account business. It has been suggested that the materiality threshold should be 5% of resulting core capital.

Non-ASX business

Clearly defining non-ASX business will be very important. If the objective is to capture business activities which are outside secondary market execution, settlement and clearing activities such as lead manager, underwriter or deal arranger for corporate transactions and broker firm commitments, these should be captured as non-ASX business.

Where participants facilitate non-ASX business activities through an outsourced arrangement, they may still be exposed to risk if they are taking on risks associated with client default and this should be considered.

Materiality should be determined based upon both stress testing for market movements as well as concentrated positions.

It has been suggested that the level of risk associated with the activity is more important than the activity itself. Organisations that have prudent risk policies, stress testing to monitor risk and a track record of minimal losses should receive credit relative to others who may take on higher risk or fail to adequately monitor risks.

It has also been noted that it is not abundantly clear whether transactions in ASX-listed products executed on the Chi-X market are to be considered "non-ASX business". Clarification of this issue from ASX's perspective would be appreciated.

Q4. Do you believe that compliance with the requirements would require significant changes in your core capital? And if so, please set out the consequences of this increase.

AFMA members have indicated this is not a concern.

Q5. Will you seek to (a) inject the additional capital, (b) use the services of a third-party clearer or (c) change your business model in another way in response to such changes?

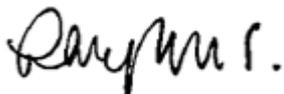
Members expect to take a variety of approaches to funding the additional requirement.

Q6. Should the increase be implemented in stages or all at once? And if phased, please indicate a timeframe that would be sufficient for you to deal with the increase.

Members have indicated they prefer an all-at-once approach and that a 6 month notice period would be sufficient.

Please contact me on 02 9776 7997 or tlyons@afma.com.au if you have any queries about this submission.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Tracey Lyons'.

Tracey Lyons
Head of Policy