2013 Australian Grains Industry Conference

Enhancing risk protections for Australian markets

Paul Jones   General Manager, Clearing Risk Policy

31 July 2013

Key Topics

The impact of regulatory change on ASX's clearing houses

Important legislative changes recently enacted in Australia

ASX's plans to further enhance client protection

Regulatory Changes

❑ **New Global Standards for Clearing Houses**

- Publication of the CPSS-IOSCO Principles for Financial Market Infrastructures

- Part of the G20 commitment

- Higher and more prescriptive standards for clearing houses

❑ **Updated Financial Stability Standards**

- RBA/ASIC oversight of ASX's central counterparty clearing houses

- Reflect global best practice

- Implemented end of March 2013

- Includes greater detail on:

    - Margin segregation

    - Portability

Regulatory Changes

❑ **Legislative changes further empower Australian clearing houses**

- Important changes to the Payment Systems and Netting Act (PSNA) took effect from 19th July 2013

- Remove obstacle to porting caused by insolvency laws where a Clearing Participant is in external administration

- Client consent required prior to porting of positions/collateral

❑ **New client protection models**

- Currently net omnibus, co-mingling positions and margin

- Offer further choices for clients as part of the Client Protection Model

- Rollout to start from Q2 2014

- Initial Rulebook consultation this month

Client Protection Models

1. **"LSOC–style"**

   - **L**egally **S**egregated **O**perationally **C**ommingled

   - Positions recorded at individual client account level

   - Client margins held 'gross' at the clearing house

   - Clearing house commitment to porting open client positions and margin value, subject to meeting set criteria

   - Remaining margin after any close out returned to client

2. **Including Excess Cover**

   - Extension of LSOC to hold clients' excess margin at the clearing house to also be ported in the default of the Clearing Participant

3. **Full Individual Segregation**

   - Yet to be specified in detail

   - Potentially longer term addition to the options