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ASX SETTLEMENT PROCEDURE GUIDELINES



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Context of this Document

The ASX Settlement Procedure Guidelines must be read in the context of the ASX Settlement Operating Rules.

Any terms explicitly defined in the ASX Settlement Operating Rules and used in the ASX Settlement Procedure Guidelines should be interpreted according to the definition given in ASX Settlement Operating Rules. This includes terms such as participant, registry, holder, issuer, subregister, and financial product. Because of the large number of these terms, they have not been capitalised for emphasis in this document.

In the interests of readability and comprehension, where a procedure applies only in the context of securities in a listed company, the specific term security has been used instead of the more generic term financial product.

Change History

Version	Date	Description of changes
1.0	May 2005	Initial version of a merged guideline document incorporating details from both the PPG and IRPG
1.7	Dec 2010	Updates to include name changes within ASX Group and ASX Operating Rule books.
2.3	Apr 2014	Miscellaneous format adjustments and general corrections.
3.1	Jan 2016	ASXOnline document merge.
3.2	Mar 2016	T+2 implementation and change in references from C&S Operations to Post Trade Operations

SECTION 15. CLAIMS FOR ENTITLEMENTS (OUTSIDE CHESS)

15.1 CLAIMS FOR ENTITLEMENTS CONCEPTS

Buyers of securities that have traded cum for a particular corporate action receive their entitlement direct from the issuer only if they are registered as the holder on or before the record date.

In a fixed period settlement environment the majority of cum transactions settle in time for cum buyers to be registered on or before the record date, and thus receive the corporate action entitlement direct from the Issuer.

For cum transactions not registered on or before the record date, CHESS automatically adjusts the transactions to reflect the claims due for cash and/or financial products after the close of business on record date (refer to Section 14).

Although fixed period settlement and automatic CHESS adjustments minimise the incidence of claims, they do not completely eliminate them.

In cases where the cum buyers are not the registered holders of the cum securities and CHESS has not automatically adjusted the cum transaction, the buyer must claim the entitlement back from seller who is no longer entitled to it but remained registered as at the close of business on the record date.

CHESS handles claims for any corporate action that has a fixed outcome (e.g. limited liability company call, reconstruction) by means of adjustment. Outstanding off market settlement transfers may still require an external financial claim component.

CHESS does not apply adjustments for any corporate action with an optional outcome (e.g. note conversion, option exercise). Participants must manually adjust these transactions in CHESS to reflect the claim, or may cancel the transaction and make a claim outside CHESS (refer to Section 14).

Demand transactions (Financial Products movements only) are not diary adjusted by CHESS, thus any claims must be progressed outside CHESS.

15.2 CLAIMING AS A RESULT OF A SETTLEMENT ADJUSTMENT

Participants should monitor the settlement of financial products on or before the record date prior to determining final cum balances.

PROCEDURE

- 15.2.1 If a failed settlement obligation in CHESSE has no financial value component (e.g. transfer for off market settlement where the financial component for settlement is external to CHESSE), CHESSE makes only a financial product adjustment (refer to Section 14). This results in the transferee receiving only the adjusted delivery of financial product through CHESSE on the adjusted settlement date. CHESSE notifies the participant of an adjusted settlement.
- 15.2.2 If there needs to be a related financial adjustment outside CHESSE, the party short in funds due to the adjustment should make an immediate financial claim against the counterparty. This claim occurs outside CHESSE.
- 15.2.3 At start of day on the business day following the record date for an ex period, CHESSE automatically adjusts all outstanding (failed) cum settlement obligations where appropriate (refer to Section 14).
- 15.2.4 CHESSE cancels any demand transactions that are unmatched over a diary adjustment date (refer to Section 10.3).

Message Reference Table

Section	Message Number and Description	Sender	Recipient
15.2.1	128 Adjusted Settlement Instruction	CHESSE	Participant
15.2.1	142 Accrued Settlement Instruction	CHESSE	Participant

15.3 CLAIMING FROM NET OBLIGATIONS (FOR CLEARING PARTICIPANTS ONLY)

Novation legally places the central counterparty (CCP) between the two counterparties to a trade (refer to Section 7.3). Following novation, the netting process results in a net obligation (NO) between a clearing participant and the central counterparty (refer to Section 7.4).

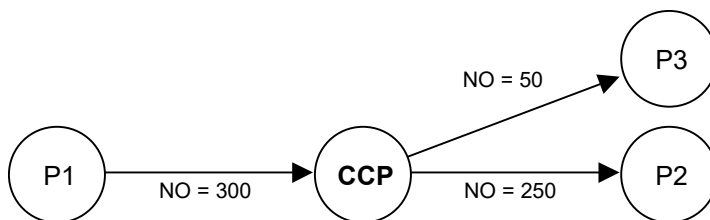
In the event of an elective corporate action, a clearing participant may require protection, other than the industry default, for a market transaction where they are to receive securities. CCP does not provide this protection. In some circumstances, CHESSE will prevent netting to all counterparties to effect non-default protection. Also, a clearing participant may prevent a transaction from being netted, which allows the receiving party to request non-default protection directly from their counterparty. For information on how to do this, refer to the section on blocking trades (section 7.5).

A clearing participant can obtain non-default protection by isolating a transaction from a net obligation after netting, provided the transaction has failed to settle at least once. The clearing participant who should have received a failed obligation may submit a request to CHESSE. The effect of this request is the adjustment or cancellation of the net obligation, depending on the number of securities requested to be isolated. CHESSE targets one or more corresponding net obligations. New obligations carrying the same settlement attributes as the original net obligations and are established between the requesting and the isolated counterparties. The requesting party then approaches the targeted counterparty to request the non-default protection. The targeted counterparty may not be the same counterparty who made the original trade.

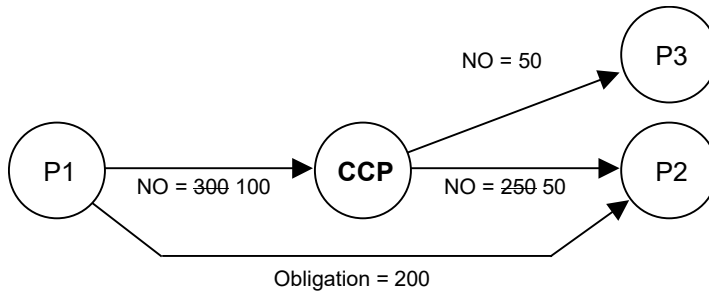
Despite the isolation of the transaction from the net obligation, ASXCL still guarantees the settlement.

Single Counterparty Example

Consider the following set of obligations:

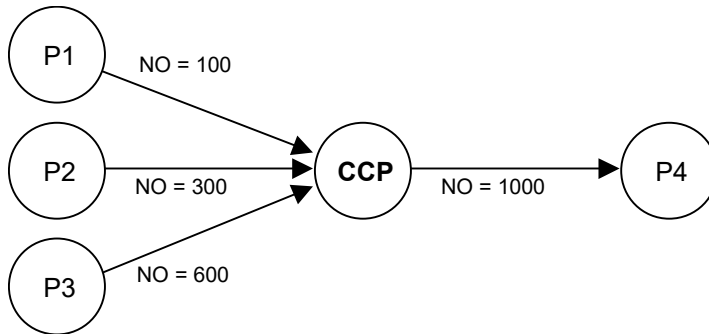


If P2 requests isolation of 200 units, then the result would look like this:

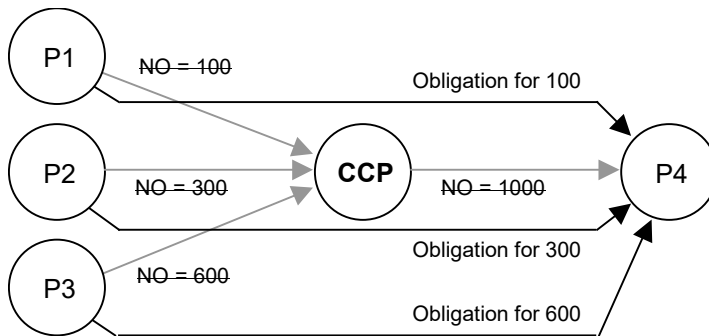


Multiple Counterparty Example

Consider the following set of obligations:



If P4 requests isolation of 1000 units, then the result would look like this:



PROCEDURE (For Clearing Participants Only)

- 15.3.1 Following the failure of a transaction to settle, the receiving participant establishes a need to isolate the counterparty to a net obligation.
- 15.3.2 The receiving participant submits a request to CHES, nominating the specific net obligation and the number of securities required.

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- 15.3.3 CHESSE validates the request then:
- targets corresponding obligations to which CCP is the receiving participant for the required number of securities ;
 - adjusts or cancels targeted obligations accordingly; and
 - establishes new settlements between the parties.
- CHESSE notifies participants of the changes.
- 15.3.4 The requesting participant approaches the counterparties nominated by CHESSE to provide the protection required.

Message Reference Table

Section	Message Number and Description	Sender	Recipient
15.3.2	139 Isolate Counterparty Request	Participant	CHESSE
15.3.3	518 Rejected Transaction	CHESSE	Participant
15.3.3	128 Adjusted Settlement Instruction	CHESSE	Participant
15.3.3	116 Cancelled Settlement Instruction	CHESSE	Participant
15.3.3	164 Notified Trade	CHESSE	Participant

**15.4 CHESS INITIATES THE ISOLATION OF A COUNTERPARTY
(FOR CLEARING PARTICIPANTS ONLY)**

At the end of day on the record date, CHESSE may isolate a counterparty for all failed net obligations when they have a cum entitlement basis or when the security lapses, expires or matures.

The result of this action replaces the net obligations with one or more trade obligations. ASXS will diary adjust these new outstanding obligations.

A participant who has failed to receive their entitlement may then request the entitlement from the counterparty market participant.

Despite the isolation of a transaction from netting, ASXCL still guarantees the settlement.

PROCEDURE (For Clearing Participants Only)

- 15.4.1 At the end of day on record date CHESSE determines if there are any outstanding net obligations having a cum entitlement basis.
- 15.4.2 For each net obligation having a cum entitlement Basis in which CCP is the delivering party, CHESSE:
 - targets corresponding obligations for which CCP is the receiving party for the equivalent number of securities;
 - adjusts or cancels targeted obligations accordingly; and
 - establishes trades between the parties.

CHESSE notifies participants of the changes.
- 15.4.3 The participant approaches the counterparty nominated by CHESSE to provide the entitlement.

Message Reference Table

Section	Message Number and Description	Sender	Recipient
15.4.2	128 Adjusted Settlement Instruction	CHESSE	Participant
15.4.2	116 Cancelled Settlement Instruction	CHESSE	Participant
15.4.2	164 Notified Trade	CHESSE	Participant