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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. Removal of outdated paperwork lodgement procedures.
2.2	May 2013	Removal of ASXCL removes expiring warrant collateral Update to section 17.4 to include Cash Market Margining related removal of collateral.
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 17: COLLATERAL HELD WITH ASX CLEAR

#### 17.1 COLLATERAL CONCEPTS

Financial products may be reserved in CHES as cover for ASX Clear Pty Limited (ASXCL) positions in exchange traded derivatives.

With the introduction of CHES Release 6.0 and the corresponding changes to the ASXCL collateral (formerly “options cover”) procedures, all collateral lodgements are done electronically. In order to authorise lodgement of their collateral, the controlling participant’s client must execute a Registered Holder Authorisation (refer to the ASX Clear Procedures) and send it to ASXCL.

ASXCL cannot process any collateral lodgements without a Registered Holder Authorisation being in place.

A controlling participant can reserve financial products for collateral in the ASXCL subposition of a holding. Once reserved, the controlling participant relinquishes control over the financial products until they are released by ASXCL. Once reserved in a subposition, securities are under the control of ASXCL. ASXCL may remove financial products from the ASXCL subposition, thus returning financial products to the holder’s available balance, or may transfer the subposition to the available balance of another holding thus releasing the financial products.

ASXS notifies the holder of changes to subpositions in writing. ASXS notifies the controlling participants and the clearing participants of changes to subpositions by CHES message.

CHES has no records of the underlying derivatives activity being covered: it responds only to instructions from the authorised parties. All collateral processing is done with demand transactions and is not included in the settlement process.

The collateral procedure can be used for other exchange traded derivatives such as low exercise price options (LEPOs) and futures.

Refer to section 30. Cash Market Margining, for non-cash collateral concepts related to Cash Market Margining.

### 17.2 CREATING OR AUGMENTING COLLATERAL

To create collateral, the controlling participant sends a request to CHES to reserve financial products in an ASXCL subposition.

The same procedure applies to both creating new collateral and augmenting existing collateral.

The holder must have executed a Registered Holder Authorisation to move holdings to a subposition for collateral.

For procedures relating to lodgement of non-cash collateral as cover for cash market margins, refer to section 30. Cash Market Margining.

#### PROCEDURE

1. The controlling participant receives instructions from their client.
2. The controlling participant sends a request to CHES to create collateral by moving some or all of a particular holding to an ASXCL subposition.  
  
This message also indicates if the controlling participant is a margin lender or if the collateral is for specific purposes.
3. CHES validates the request. If the request is valid, CHES reserves the financial products in an ASXCL subposition of the holding, then notifies the participant and ASXCL that the subposition has been created. If the request is invalid, CHES notifies only the participant.
4. If ASXCL accepts the collateral, they send an acceptance to CHES. CHES notifies the participant.  
  
If the clearing participant and the controlling participant have different UICs, CHES notifies the clearing participant of the ASXCL acceptance of the collateral.  
  
ASXS notifies the holder of the reservation of their financial products in the ASXCL subposition (refer to Sample I).
5. If ASXCL rejects the collateral, they send a rejection to CHES. CHES releases the financial products and removes the subposition, then notifies the participant.  
  
If the clearing participant and the controlling participant have different UICs,

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CHESSE notifies the clearing participant of the ASXCL rejection of the collateral.

ASXS notifies the holder of the release of their financial products from the ASXCL subposition (refer to Sample J).

### Message Reference Table

Step	Message Number and Description	Sender	Recipient
1	027 Collateral Creation Request	Participant	CHESSE
3	028 Created Collateral	CHESSE	Participant
3	518 Rejected Transaction	CHESSE	Participant
3	610 Collateral Request	CHESSE	ASXCL
4	607 Accepted Collateral	ASXCL	CHESSE
4	020 ASXCL Accepted Collateral	CHESSE	Participant
4	108 Collateral Creation Acceptance Advice	CHESSE	Clearing Participant
4	602 Effected ASXCL Transaction	CHESSE	ASXCL
5	609 Rejected Collateral	ASXCL	CHESSE
5	030 Reduced Collateral	CHESSE	Participant
5	176 Collateral Creation Rejection Advice	CHESSE	Clearing Participant
5	602 Effected ASXCL Transaction	CHESSE	ASXCL

### 17.3 REMOVING OR REDUCING COLLATERAL

To remove collateral, the controlling participant sends a request to CHES to release financial products from a subposition.

If the clearing participant is different from the controlling participant, then the clearing participant must authorise the removal or reduction of the collateral.

The same procedure applies to both removing and reducing collateral.

Removing holdings from a collateral subposition requires no supporting paperwork.

For procedures relating to removal of non-cash collateral as cover for cash market margins, refer to section 30. Cash Market Margining.

#### PROCEDURE

1. The controlling participant determines that a collateral subposition can be removed or reduced.
2. The controlling participant sends a request to CHES to remove or reduce collateral by releasing some or all of the ASXCL subposition for a particular holding.
3. CHES validates the request and notifies the participant accordingly.
4. If the clearing participant and the controlling participant have different UICs, CHES sends a request to authorise the removal of collateral to the clearing participant.

If the clearing participant and the controlling participant are the same, skip down to step 7.

5. If the clearing participant rejects the collateral removal, they send a rejection to CHES.

CHES notifies ASXCL and the controlling participant of the rejected removal request. CHES also notifies the clearing participant of the effected transaction.

[END]

6. If the clearing participant authorises the removal of the collateral, they send

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an authorisation to CHESSE.  
CHESSE sends ASXCL a collateral removal request.

CHESSE notifies the clearing participant of the effected transaction.

7. If ASXCL rejects the removal of the collateral, they send a rejection to CHESSE.

CHESSE notifies the controlling participant and the clearing participant of the rejected removal request. CHESSE also notifies ASXCL of the effected transaction.

[END]

8. If ASXCL authorises the removal of the collateral, they send an authorisation to CHESSE.

CHESSE processes the request by moving the units from the holding's ASXCL subposition to the available balance, then notifies both the controlling participant and the clearing participant of the removal. CHESSE also notifies ASXCL of the effected transaction.

The Participant records the removal and advises the appropriate parties.

9. ASXS notifies the holder of the collateral removal (refer to Sample J).

### Message Reference Table

Step	Message Number and Description	Sender	Recipient
2	029 Collateral Removal Request	Participant	CHESSE
3	040 Accepted Collateral Removal Request	CHESSE	Participant
3	518 Rejected Transaction	CHESSE	Participant
4	168 CP Collateral Removal Authorisation Request	CHESSE	Clearing Participant
5	109 CP Collateral Removal Rejection	Clearing Participant	CHESSE
5	160 Collateral Removal Rejection Advice	CHESSE	ASXCL
5	078 Rejected Collateral Removal	CHESSE	Participant
5	144 Effected CP Transaction	CHESSE	Clearing Participant
6	103 CP Collateral Removal Authorisation	Clearing Participant	CHESSE
6	612 Collateral Removal Authorisation Request	CHESSE	ASXCL

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6	144	Effected CP Transaction	CHESS	Clearing Participant
7	605	Collateral Removal Rejection	ASXCL	CHESS
7	078	Rejected Collateral Removal	CHESS	Participant
7	120	CP Collateral Removal Rejection Advice	CHESS	Clearing Participant
7	602	Effected ASXCL Transaction	CHESS	ASXCL
8	603	Collateral Removal Authorisation	ASXCL	CHESS
8	030	Reduced Collateral	CHESS	Participant
8	110	CP Collateral Removal Acceptance Advice	CHESS	Clearing Participant
8	602	Effected ASXCL Transaction	CHESS	ASXCL

### 17.4 ASXCL REMOVES COLLATERAL

Under certain circumstances, ASXCL has the right to remove or reduce collateral. This may be where a security becomes ineligible for use as collateral or because of an ASXCL directive. Removal may occur at the lodgement, account, or security level.

#### PROCEDURE

1. ASXCL determines collateral should be removed and sends a message to CHES.
2. CHES validates the request. If the request is valid, CHES processes the request by moving the units from the holding's ASXCL subposition to the available balance on the HIN, then notifies both the participant and ASXCL of the removal.

The Participant records the removal and advises the appropriate parties.

ASXS notifies the holder of the collateral removal (refer to Sample J)

3. For subpositions lodged as margin cover collateral for Cash Market Margining, ASXCL sends an ASXCL removal margin cover request to CHES.

CHES sends an effected ASX Clear transaction to ASXCL as confirmation the request has been received.

At the same time CHES sends an adjusted subposition message to the participant.

#### Message Reference Table

Step	Message Number and Description	Sender	Recipient
1	023 ASXCL Removal Request	ASXCL	CHES
2	602 Effected ASXCL Transaction	CHES	ASXCL
2	082 Adjusted Subposition	CHES	Participant
3	883 ASXCL Removal Margin Cover	ASXCL	CHES
3	602 Effected ASX Clear Transaction	CHES	ASXCL
3	082 Adjusted Subposition	CHES	Participant

### 17.5 ASXCL CLAIMS THE COLLATERAL

As a result of certain events (e.g. a default), ASXCL retains the authority to claim securities reserved as collateral.

#### PROCEDURE

1. ASXCL exercises its right to claim the collateral securities reserved in a subposition.
2. ASXCL sends a message to CHESSE.  
  
ASXCL may wish to move all or part of a subposition to another holding and remove the collateral status of the transferred securities in the new holding. ASXCL may also use this message to move all or part of a subposition to a participant counterparty entrepot to ensure the securities are applied toward the settlement of a sale arising from the exercise of the overlying option.
3. CHESSE notifies all parties to the release (i.e. ASXCL, transferee controller, and transferor).

#### Message Reference Table

Section	Message Number and Description	Sender	Recipient
2	042 Collateral Release	CHESSE	Participant