

ASX Investment Loss Allocation

Fact Sheet for clients

Allocation of investment losses between ASX, clearing brokers and their clients if a US settlement bank holding overnight margin monies defaults

Key terms used in this Fact Sheet

ASX	The term 'ASX' refers to ASX Clear (Futures) Pty Limited, a licensed clearing house and wholly owned subsidiary of ASX Limited.
ASX Default Fund	The term 'ASX Default Fund' refers to the resources ASX maintains to meet losses if a clearing broker defaults under the ASX Clear (Futures) Operating Rules. Clearing brokers make contributions to the ASX Default Fund on a quarterly basis calculated by reference to the initial margin they paid in the previous quarter.
Clearing broker	The term 'clearing broker' refers to an institution that is authorised to clear and settle derivative contracts with ASX on its own behalf and on behalf of its clients. Clearing brokers are also known as 'clearing participants'.
Client	The term 'client' refers to a person or organisation that has entered into an agreement with a clearing broker under which the clearing broker agrees to clear and settle derivative contracts on their behalf.
Default	The term 'default by a US Settlement Bank' or 'US Settlement Bank default' refers to the insolvency of a US Settlement Bank that holds Overnight Margin Monies.
Overnight Margin Monies	The term 'Overnight Margin Monies' refers to money deposited in United States Dollars with a US Settlement Bank by a clearing broker to cover its overnight margin obligations to ASX. Only clearing brokers who are within the scope of the overnight margin call pay Overnight Margin Monies.
US Settlement Bank	The term 'US Settlement Bank' refers to banks established in the United States that hold Overnight Margin Monies.

Who this fact sheet is for

This fact sheet is for clearing brokers' clients who have invested in, or are considering investing in, ASX 24 Exchange Traded Derivatives or OTC Interest Rate Derivatives.

The purpose of the fact sheet

The purpose of the fact sheet is to provide an overview of how investment losses will be allocated between ASX, clearing brokers and their clients if a US Settlement Bank defaults while it is holding Overnight Margin Monies.

This fact sheet is provided for guidance only and should be read in conjunction with the ASX Clear (Futures) Operating Rules and ASX Recovery Rules. It does not replace or vary those Operating Rules.

Consequences of a US Settlement Bank default

In order to cover exposures generated from trading and market price moves during the overnight trading session, ASX collects Overnight Margin Monies from clearing brokers. These monies are paid by clearing brokers into bank accounts that ASX maintains with several US Settlement Banks. ASX is exposed to the risk that a US Settlement Bank might default while it is holding Overnight Margin Monies.

If a US Settlement Bank defaults ASX may suffer a loss of some or all of the Overnight Margin Monies held by that US Settlement Bank. This would be an 'investment loss.'

Allocation of investment losses

Any investment loss will be allocated between ASX, its clearing brokers and their clients in accordance with the ASX Recovery Rules. Under the ASX Recovery Rules, ASX will bear the first \$75 million of an investment loss. However, any loss greater than \$75 million will be shared between clearing brokers and their clients.

A clearing broker's share of an investment loss greater than \$75 million will be calculated based on three components:

Component	Percentage of investment loss allocated based on component
1 The contribution made to the ASX Default Fund by the clearing broker compared to all other clearing brokers	40%
2 The contribution made to the ASX Default Fund by the clearing broker compared to the other clearing brokers within the scope of the overnight margin call	30%
3 The clearing broker's share of <u>the total average</u> Overnight Margin Monies <u>held by all US Settlement Banks at the time the investment default occurred</u> paid to ASX in the quarter immediately prior to the clearing broker's latest contribution to the ASX Default Fund	30%

These allocation principles mean that even if a clearing broker is not within the scope of the overnight margin call or has not paid Overnight Margin Monies to ASX at the time of the US Settlement Bank default the clearing broker and its clients will still bear a share of the investment loss.

ASX will allocate a clearing broker's share of an investment loss between its House and Client accounts in proportion to the monies paid to ASX by the clearing broker in respect of each account. However, any Overnight Margin Monies paid to ASX for those accounts will be used to meet the investment loss first before any other funds of the clearing broker or its clients held by ASX.

What this means for you

If there is a US Settlement Bank default this means that you may suffer a loss of some or all of the margins that you have deposited with your clearing broker that they have passed onto ASX. You may be required to make a further payment of margin to ASX via your clearing broker to maintain the positions in your account. If your clearing broker is in default at the time ASX allocates the investment loss, the "collateral value" that we return to you (or your defaulting clearing broker on your behalf) may be reduced taking into account the investment loss allocated to your account (refer to the ASX Fact Sheet entitled "ASX Client Clearing Service for derivatives - Fact Sheet" available on the ASX website).