



30 November 2020

ASX  
20 Bridge Street  
Sydney NSW 2000

By email: [crateam@asx.com.au](mailto:crateam@asx.com.au)

Dear Team

**Re: Capital Requirements for ASX Clear Participants**

Thank you for the opportunity to comment on the consultation paper regarding capital requirements for ASX Clear Participants.

AFMA has considered the proposals and, overall, we are generally supportive subject to some further clarifications and commitments to reliable timely processes. We discuss our concerns below and offer some suggestions for further refinement of the arrangements.

AFMA recognises the issues raised by ASX with regard to current capital arrangements. We note however that the current arrangements have allowed firms sufficient flexibility to deal with transient demands for increased capital in an efficient, predictable and effective way.

We have no in-principle objections to a single measure of capital but submit that the new arrangements should continue to provide for similar effective outcomes. While we have confidence in ASX Clear's prudent management of any discretion it gains under the new arrangements we seek increased certainty for clearing participants to ensure any firm that considers participating as a clearing firm can have confidence it will not be left exposed by any unexpected determinations.

The changes will not have a material effect on many firms depending on their particular structure. However, smaller firms have noted that they may be disproportionately impacted, as under normal markets it is uneconomical to capitalise smaller businesses for what might be one-off transactions.

Demands for additional capital can occur unexpectedly and for the smooth and efficient functioning of the market a predictable and efficient process must be put in place that

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allows multiple drawdowns on a subordinated loan where there are genuine spikes in required capital.

AFMA suggests that it may be appropriate for ASX Clear to provide pre-approvals for such increases so that firms will know with certainty they will be able to use subordinated debt for their next demand for increased capital. ASX may wish to place limits on when it will provide such pre-approvals but firms should not ever be placed in a position where they unexpectedly receive a denial for a one-off ASD increase.

We suggest that ASX provides certainty around the timeframe for approvals and suggest, given the need for firms to know quickly where they stand, that this should be no more than 1 hour.

AFMA also asks that ASX consider a longer phase-in or grandfathering period for existing subordinated debt where these arrangements have not been of concern to ASX previously.

AFMA members also raise the following questions about the arrangements as proposed in the consultation paper:

1. Can ASX Clear confirm that when the ASD limit has been reached, how should the surplus of subordinated debt over the limit be disclosed in Balance Sheet within the Capital Liquidity Return? Should this be treated as borrowings/ other liabilities?
2. Can ASX Clear confirm administratively how the change in ASD balance would be tracked and communicated? ASX Clear normally provides written confirmation of the ASD balance at each draw down or repayment. In the case where Core Capital has decreased and therefore the ASD balance has changed, will ASX Clear issue written confirmation at the end of each month with the new ASD balance, (replacing the ASD balance stated in previous notices)?
3. Can ASX Clear confirm that when the ASD limit has been reached, no actual cash repayment of the ASD surplus (above the limit) is required?
4. In the event that a participant wanted to request that a higher amount of ASD be included in the Liquid Capital for a certain period of time (as is allowed for within the consultation paper), how would such a request need to be submitted to ASX and within what timeframe?

We thank you for considering our comments and look forward to continuing to work with ASX on developing this proposal.

Yours sincerely



Damian Jeffree

**Senior Director of Policy**