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11 January 2013

Dr Tony Richards  
Head of Payments Policy Department  
Reserve Bank of Australia  
GPO Box 3947  
Sydney NSW 2001

Dear Tony,

**Re: Application for transitional relief under the new Financial Stability Standards (FSSs) for Central Counterparties (CCPs) and for Securities Settlement Facilities (SSFs).**

The Australian Securities Exchange (ASX) would like to thank the Reserve Bank of Australia (RBA) for the opportunity to apply for transitional relief from the new *Financial Stability Standards* (FSS) in addition to the transitional relief already announced by RBA on several standards related to recovery and resolution. ASX recognises that there is significant market change ahead as the *CPSS-IOSCO Principles for Financial Market Infrastructures* (PFMIs) are implemented both in Australia and overseas and commends the Australian regulators for their speedy implementation of the new FSS.

ASX recognises the important role of its Clearing and Settlement (C&S) facilities in maintaining systemic stability in the Australian markets and fully supports the objectives of the new regulatory regime.

ASX has undertaken a comprehensive review of its governance, risk management and operational arrangements to ensure compliance with the new FSS. We are on schedule to have implemented any necessary enhancements to these arrangements.

Transitional relief is only sought in two areas because of the potential for enhancements resulting in significant industry-wide changes.

**Transitional Relief**

ASX's clearing facilities seek transitional relief in two categories as the required changes by ASX and its participants will not be complete prior to the introduction of the new FSS on 29 March 2013.

We have copied this letter to the Australian Securities and Investments Commission (ASIC) because, if the RBA Payments Stability Board is to accept our application for transitional relief, we also seek transitional relief from ASIC for the corresponding Principles.

ASX is seeking transitional relief for certain FSS Central Counterparty requirements contained under the Liquidity Risk<sup>1</sup> and the Segregation and Portability Standards. Please see Attachment A for further details.

The request for transitional relief arises from the potential need for significant industry-wide changes, including CCP operating rule changes, which may be necessary to enable ASX CCPs to fully comply with certain new requirements. In addition, it should be noted that the ability of ASX's CCPs and their users to fully benefit from new Segregation and Portability arrangements will require domestic legislative changes. Any delays in completing these changes will limit a CCP's ability to port client positions and collateral in the event of a Clearing Participant default.

ASX seeks 12 months transitional relief to 31 March 2014 for the standards listed in Attachment A to align with the relief already granted to standards related to FMI resolution and recovery. ASX is currently undertaking market consultations in order to develop appropriate solutions to these new requirements and the final design is therefore yet to be completed. Accordingly, ASX may request that the RBA subsequently consider further extensions to transitional relief for these standards where reasonable grounds exist to do so. Reasonable grounds for extending transitional relief should include delays in market and regulatory approval of operating rule book changes or market wide operational and system changes. Other reasonable grounds might be an unexpected significant market event.

If you would like further detail on our application, please contact Joshua Everson on +61 2 9227 0233. ASX looks forward to working with the RBA as we implement the remaining actions required to achieve compliance with the new regulatory requirements.

Yours sincerely



**Alan Bardwell,  
Chief Risk Officer**

CC:  
Mr Oliver Harvey  
Senior Executive Leader, Financial Market Infrastructure  
Australian Securities and Investments Commission  
Level 5, 100 Market Street  
Sydney NSW 2000

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<sup>1</sup> For limited aspects of the Central Counterparties Liquidity Risk Standard in respect of ASX Clear only.

## ATTACHMENT A - Standards from which ASX is requesting transitional relief

### ASX Clear Pty Limited

Standard	Reason	ASX plan to achieve compliance by the end of the transitional relief period (March 2014) <sup>2</sup>
<u>FSS for Central Counterparties</u>		
Substandards 7.3 and 7.9 (Liquidity arrangements arising from participant default)	Significant industry-wide change	ASX will undertake a market consultation on our proposed solution in Q1 2013. After incorporating any suggestions from the market and regulatory authorities we intend to implement the necessary Rulebook and system changes by the end of March 2014.
Substandards 13.1, 13.2 and 13.3 (Segregation and Portability-related)	Significant industry-wide change and domestic legislative change	ASX released a Discussion Paper on Derivatives Account Segregation and Portability in October 2012 and is currently considering the submissions received. We intend to consult further on this issue in Q1 2013 and also on specific cash equity market account segregation and portability proposals.  After incorporating market and regulatory feedback, where possible, ASX will seek to make any Rulebook or systems changes by the end of March 2014.

### ASX Clear (Futures) Pty Limited

Standard from which relief is sought	Reason for relief	ASX plan to achieve compliance by the end of the transitional relief period (March 2014)
<u>FSS for Central Counterparties</u>		
Substandard 13.3 (Portability related)	Significant industry-wide change and domestic legislative change required	ASX released a Discussion Paper on Derivatives Account Segregation and Portability in October 2012 and is currently considering the submissions received. We intend to consult further on this issue in Q1 2013.  After incorporating market and regulatory feedback, where possible, ASX will seek to make any Rulebook or systems changes by the end of March 2014.

### ASX Settlement Pty Limited

ASX is not applying for transitional relief for this entity.

### Austraclear Limited

ASX is not applying for transitional relief for this entity.

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<sup>2</sup> Legislative changes necessary to facilitate client portability in a default are considered outside the scope of specific ASX plans.

## **About ASX**

The ASX Group is a vertically integrated exchange group and a provider of multi-asset class exchange services. It operates Australia's main equities and derivatives exchange markets and the post-trade processing services in which transactions executed on Australian markets are cleared and settled.

ASX currently operates two Central Counterparties (CCPs) – ASX Clear and ASX Clear (Futures). ASX Clear provides CCP services for a range of financial products traded on the Australian markets, including cash equities, pooled investment products, warrants, certain interest rate products and equity and commodity-related derivatives. ASX Clear (Futures) provides CCP services for derivatives traded on the ASX24 market, including futures and options on interest rate, equity, energy and commodity products. Together with the major market participants, ASX Clear (Futures) will extend its clearing services to OTC interest rate swaps and Forward Rate Agreements in mid-2013.

The ASX Group also has two wholly-owned settlement facility subsidiaries, ASX Settlement and Austraclear. These two settlement facilities provide a delivery versus payment (DvP) settlement service, secure asset holding services as well as a wide network that enables 'straight through processing' to both exchange traded markets (ASX Settlement) and over the counter markets (Austraclear).

ASX Settlement operates the Clearing House Electronic Subregister System (CHES) which effects the trade settlement for ASX Clear. It does this by transferring the title or legal ownership of the shares while simultaneously facilitating the transfer of money for those shares between participants via their respective banks. CHES is a Model 3 batch settlement system which reduces settlement exposure and improves operating efficiency by providing multi-lateral settlement netting.

Austraclear is Australia's settlement system and central securities depository (CSD) for the wholesale debt market. Austraclear is a DvP Model 1 Settlement system which offers a line-by-line real-time irrevocable exchange of cash for securities.