

Changes to ASX Clear (Futures) Initial Margin Parameters - FAQ

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Introduction

On the 20th of November 2018, ASX Clear (Futures) issued a Market Notice advising of:

- revisions to the initial margin parameters;
- changes to inter-commodity concessions for ASX 24 energy derivative products; and
- the introduction of a new liquidity margin add-on requirement for Clearing Participant portfolios.

The market notice is available for download [here](#).

This paper has been written to provide market users with background and information on the changes, as the ASX is aware that these changes impacted significantly on some market users

1. What has changed?

- **Revision of initial margin parameters**

ASX Clear (futures) regularly reviews initial margin parameters impacted by changes to price scanning ranges (PSR). Please see a summary of PSR changes below:

Name	Contract	Previous PSR (%)	Current PSR (%)
Base New South Wales Quarter Futures – Tier 1	BNZ2018F	31	21
Base New South Wales Quarter Futures – Tier 2	BNH2019F	16	16
Base Queensland Quarter Futures – Tier 1	BQZ2018F	50	35
Base Queensland Quarter Futures – Tier 2	BQH2019F	40	15
Base Victoria Quarter Futures – Tier 1	BVZ2018F	50	19
Base Victoria Quarter Futures – Tier 2	BVH2019F	40	18
Base South Australia Quarter Futures – Tier 1	BSZ2018F	18	19
Base South Australia Quarter Futures – Tier 2	BSH2019F	16	19
Base Quarter New South Wales \$300 Cap – Tier 1	GNZ2018F	50	50
Base Quarter New South Wales \$300 Cap – Tier 2	GNH2019F	35	50
Base Quarter Queensland \$300 Cap – Tier 2	GQH2019	37	46
Base Quarter South Australia \$300 Cap – Tier 2	GSH2019	29	50
Base Quarter Victoria \$300 Cap – Tier 2	GVH2019	46	50

- **Reduction of inter-commodity concessions**

ASX Clear (Futures) previously applied concessions between a number of instruments which provide risk offsets. Please see a summary of changes below:

Commodity A	Commodity B	Previous ICC (%)	Current ICC (%)
NSW Peak Quarter Futures (PN)	NSW Base Quarter Futures (BN)	40	-
VIC Base Quarter Futures (BV)	NSW Base Quarter Futures (BN)	50	50
VIC Peak Quarter Futures (PV)	NSW Peak Quarter Futures (PN)	50	-
SA Base Quarter Futures (BS)	VIC Base Quarter Future (BV)	40	40
NSW Base Quarter \$300 Cap (GN)	NSW Base Quarter Futures (BN)	50	-
QLD Base Quarter \$300 Cap (GQ)	QLD Base Quarter Future (BQ)	60	-
NSW Base Strip Option (HN)	NSW Base Quarter Futures (BN)	60	-
QLD Base Strip Option (HN)	QLD Base Quarter Futures (BN)	60	-
SA Base Strip Option (HN)	SA Base Quarter Futures (BN)	60	-
VIC Base Strip Option (HN)	VIC Base Quarter Futures (BN)	60	-
QLD Base Month Future (EQ)	NSW Base Month Future (EN)	45	45
VIC Base Month Futures (EV)	NSW Base Month Future (EN)	45	45

- **Introduction of Liquidity add-ons**

ASX Clear (Futures) has enhanced its initial margin methodology to use the amount of trading activity observed in a product and a participant's net position to determine initial margin parameters. These changes were not electricity product specific but applied across all ASX 24 products.

Participants with net positions in a product that exceed a predefined, product specific base portfolio size will be charged a liquidity margin add-on in addition to their base initial margin requirement. The add-on is calculated at the clearing participant level.

Further details can be found in the FAQ [here](#).

2. Why were the changes made?

ASX Clearing Risk periodically reviews its approach to setting initial margin parameters for ASX 24 derivative products to ensure it aligns with regulatory standards and global best practice, and provides initial margin levels that adequately protect ASX Clear (Futures) and the rest of the market in the event of a participant default.

- Revision of initial margin parameters

A regular review which is based on the price scanning ranges i.e. the maximum price movement likely to take place in each instrument.

- Reduction of inter-commodity concessions

The review of margining included a review of inter-commodity concessions. One concern identified was that inter-commodity concessions are applied at the product level. This means concessions apply across contracts that have different maturities. As correlations differ across the maturity curve this led to some concessions being applied inappropriately. We are working to identify a solution within the SPAN framework that will allow concessions to be applied more specifically.

- Introduction of Liquidity add-ons

ASX enhanced its initial margin parameter calibration methodology by introducing a new liquidity margin add-on for Clearing Participant portfolios that exceed a predefined portfolio size. The new methodology charges margins that scale with the level of risk held by participants. This ensures a CCP has sufficient resource to cover the default of large, hard to liquidate portfolios. The add-ons are charged as Additional Initial Margins (AIMs). Charges are applied to a Participant's House account, Client omnibus, and Segregated Client accounts.

3. In January 2018, ASX amended the margin methodology and gave the market several months to adjust. Why the short notice period for this more recent change?

The recent margin methodology changes were part of a standard, regular ASX market-wide review of margin parameters. These reviews typically take place quarterly with a 10 day notice period. Generally, changes to margin methodology have a longer notice period than reviews of margin parameters. For example, the Liquidity Add-On changes had been discussed with Clearing Participants for 9 months prior to the changes.

4. Is ASX making any changes?

Feedback from our customers following the recent changes to margin parameters have highlighted that implementation process and communication of the inter-commodity concession changes in particular had a material impact on some customers. As a result, ASX is reviewing its procedures for assessing impact of margin changes going forward, with the aim of improving the implementation process and client communication around changes. For example, future communications will clearly highlight which margin parameters have changed. ASX apologises for the disruption this created.

5. Will the ICCs be reviewed?

Inter-Commodity Concessions will be reviewed again. We currently do not have a timeframe for completion of the review.

6. How often are margins reviewed?

In the past, ASX Clear (futures) reviewed margins quarterly, however, going forward the intention is to shift to a monthly review of parameters.

7. What can I do if I have further questions about these changes?

ASX welcomes customer feedback and has a formal process to log and escalate significant issues. If you have further questions or wish to provide your feedback please do not hesitate to contact the ASX Business Development team below:

Bradley Campbell – Head of Commodities

+61 2 9227 0492

Bradley.campbell@asx.com.au