

ANNEXURE A – CCP Standards

Financial Stability Standards for Central Counterparties

Introduction

The *Financial Stability Standards for Central Counterparties* (CCP Standards) are determined under section 827D(1) of the *Corporations Act 2001* (the Act). The CCP Standards apply to all holders of an Australian Clearing and Settlement (CS) Facility Licence, under Part 7.3 of the Act, that operate a central counterparty. Separate financial stability standards apply to CS facility licensees that operate a securities settlement facility. For the purposes of the CCP Standards, a central counterparty is a CS facility operated by an Australian CS facility licensee where the CS facility licensee interposes itself between counterparties to contracts traded in one or more financial markets, becoming the buyer to every seller and the seller to every buyer, and thereby ensuring the performance of open contracts. Unless the contrary intention appears, obligations on a central counterparty arising from the CCP Standards should be interpreted as being obligations on the CS facility licensee, as operator of the central counterparty.

Objectives of the CCP Standards

The objectives of the CCP Standards are to ensure that CS facility licensees identify and properly control risks associated with the operation of the central counterparty and conduct their affairs in accordance with the CCP Standards in order to promote overall stability of the Australian financial system. Primary responsibility for the design and operation of a central counterparty in accordance with the CCP Standards lies with a CS facility licensee's board and senior management.

How a Licensee Meets the CCP Standards

Each CCP Standard comprises a list of requirements that, through the operation of section 821A of the Act, are binding on, and must be met by, a CS facility licensee that operates a central counterparty. To comply with a CCP Standard a CS facility licensee must comply with the headline standard (in bold type) and each of the 'sub'-standards listed under the headline standard. The CCP Standards are to be interpreted in accordance with their respective objectives and by looking beyond form to substance. In interpreting the CCP Standards, the word 'should' is to be treated as indicating a requirement upon the central counterparty to take the relevant action, unless otherwise agreed by the Reserve Bank of Australia (Reserve Bank). The Reserve Bank may, from time to time, issue guidance containing further information on specific aspects of the CCP Standards.

Where the requirements in the CCP Standards and those of the Act and *Corporations Regulations 2001* are inconsistent, the requirements of the Act and *Corporations Regulations* will prevail to the extent of such inconsistency.

Note: The CCP Standards are based largely on the Committee on Payment and Settlement Systems (CPSS) and the Technical Committee of the International Organization of Securities Commissions (IOSCO) Principles for Financial Market Infrastructures (FMIs) (the Principles) and associated key considerations.¹ The Reserve Bank has, in parts, added to and amended the text of the Principles and associated key considerations.²

¹ CPSS-IOSCO (2012), *Principles for Financial Market Infrastructures*, CPSS Publications No 101, Bank for International Settlements, April, available at <<http://www.bis.org/publ/cpss101.htm>>.

² A marked-up version of the CCP Standards, indicating where additions and alterations have been made to the text of the Principles, will be made available at <<http://www.rba.gov.au/payments-system/clearing-settlement/standards/201212-new-fss-ris/index.html>> by end 2012.

CCP Standards

Standard 1: Legal basis

A central counterparty should have a well-founded, clear, transparent and enforceable legal basis for each material aspect of its activities in all relevant jurisdictions.

- 1.1 A central counterparty should be a legal entity which is separate from other entities that may expose it to risks unrelated to those arising from its function as a central counterparty.
- 1.2 The legal basis should provide a high degree of certainty for each material aspect of a central counterparty's activities in all relevant jurisdictions.
- 1.3 A central counterparty should have rules, procedures and contracts that are clear, understandable and consistent with relevant laws and regulations.
- 1.4 A central counterparty should be able to articulate the legal basis for its activities to the Reserve Bank and other relevant authorities, participants and, where relevant, participants' customers, in a clear and understandable way.
- 1.5 A central counterparty should have rules, procedures and contracts that are enforceable in all relevant jurisdictions. There should be a high degree of certainty that actions taken by the central counterparty under such rules and procedures will not be voided, reversed or subject to stays, including in the event that the central counterparty enters into external administration or that one or more of its participants defaults or is suspended.
- 1.6 A central counterparty conducting business in multiple jurisdictions should identify and mitigate the risks arising from any potential conflicts of law across jurisdictions. A central counterparty should provide the Reserve Bank with a legal opinion that demonstrates the enforceability of its rules and addresses relevant conflicts of law across the jurisdictions in which it operates. This should be reviewed on a periodic basis or when material changes occur that may have an impact on the opinion, and updated where appropriate.

Standard 2: Governance

A central counterparty should have governance arrangements that are clear and transparent, promote the safety of the central counterparty, and support the stability of the broader financial system, other relevant public interest considerations and the objectives of relevant stakeholders.

- 2.1 A central counterparty should have objectives that place a high priority on the safety of the central counterparty and explicitly support the stability of the financial system and other relevant public interest considerations.
- 2.2 A central counterparty should have documented governance arrangements that provide clear and direct lines of responsibility and accountability. These arrangements should be disclosed to owners, the Reserve Bank and other relevant authorities, participants and, at a more general level, the public.
- 2.3 The roles and responsibilities of a central counterparty's board of directors (or equivalent) should be clearly specified, and there should be documented procedures for its functioning, including procedures to identify, address and manage member conflicts of interest. The board should regularly review both its overall performance and the performance of its individual board members.
- 2.4 The board should comprise suitable members with the appropriate skills and incentives to fulfil its multiple roles. This typically requires the inclusion of non-executive board member(s).
- 2.5 The roles and responsibilities of management should be clearly specified. A central counterparty's management should have the appropriate experience, mix of skills and integrity necessary to effectively discharge its responsibilities for the operation and risk management of the central counterparty. Compensation arrangements should be structured in such a way as to promote the soundness and effectiveness of risk management.
- 2.6 The board should establish a clear, documented risk management framework that includes the central counterparty's risk tolerance policy, assigns responsibilities and accountability for risk decisions, and addresses decision-making in crises and emergencies. Governance arrangements should ensure that the risk

management and internal control functions have sufficient authority, independence, resources and access to the board, including through the maintenance of a separate and independent internal audit function.

- 2.7 A central counterparty's operations, risk management processes, internal control mechanisms and accounts should be subject to internal audit and, where appropriate, periodic external independent expert review. Internal audits should be performed, at a minimum, on an annual basis. The outcome of internal audits and external reviews should be notified to the Reserve Bank and other relevant authorities.
- 2.8 Governance arrangements should ensure that the central counterparty's design, rules, overall strategy and major decisions reflect appropriately the legitimate interests of its direct and indirect participants and other relevant stakeholders. Governance arrangements should provide for consultation and stakeholder engagement through appropriate forums on operational arrangements, risk controls and default management rules and procedures. Major decisions should be clearly disclosed to relevant stakeholders and, where there is a broad market impact, the public.
- 2.9 A central counterparty that is part of a group of companies should ensure that measures are in place such that decisions taken in accordance with its obligations as a central counterparty cannot be compromised by the group structure or by board members also being members of the board of other entities in the same group. In particular, such a central counterparty should consider specific procedures for preventing and managing conflicts of interest, including with respect to intragroup outsourcing arrangements.

Standard 3: Framework for the comprehensive management of risks

A central counterparty should have a sound risk management framework for comprehensively managing legal, credit, liquidity, operational and other risks.

- 3.1 A central counterparty should have risk management policies, procedures and systems that enable it to identify, measure, monitor and manage the range of risks that arise in or are borne by the central counterparty. This risk management framework should be subject to periodic review.
- 3.2 A central counterparty should ensure that financial and other obligations imposed on participants under its risk management framework are proportional to the scale and nature of individual participants' activities.
- 3.3 A central counterparty should provide incentives to participants and, where relevant, their customers to manage and contain the risks they pose to the central counterparty.
- 3.4 A central counterparty should regularly review the material risks it bears from and poses to other entities (such as other FMIs, money settlement agents, liquidity providers and service providers) as a result of interdependencies, and develop appropriate risk management tools to address these risks.
- 3.5 A central counterparty should identify scenarios that may potentially prevent it from being able to provide its critical operations and services as a going concern and assess the effectiveness of a full range of options for recovery or orderly wind-down. A central counterparty should prepare appropriate plans for its recovery or orderly wind-down based on the results of that assessment. Where applicable, a central counterparty should also provide relevant authorities with the information needed for purposes of resolution planning.

Standard 4: Credit risk

A central counterparty should effectively measure, monitor and manage its credit exposures to participants and those arising from its clearing processes. A central counterparty should maintain sufficient financial resources to cover its credit exposure to each participant fully with a high degree of confidence.

- 4.1 A central counterparty should establish a robust framework to manage its credit exposures to its participants and the credit risks arising from its clearing processes. Credit exposures may arise from current exposures, potential future exposures, or both.
- 4.2 A central counterparty should identify sources of credit risk, routinely measure and monitor credit exposures, and use appropriate risk management tools to control these risks. To assist in this process, a central counterparty should ensure it has the capacity to calculate exposures to participants on a timely basis as required, and to receive and review timely and accurate information on participants' credit standing.
- 4.3 A central counterparty should have the authority to impose activity restrictions or additional credit risk controls

on a participant in situations where the central counterparty determines that the participant's credit standing may be in doubt.

- 4.4 A central counterparty should cover its current and potential future exposures to each participant fully with a high degree of confidence using margin and other prefunded financial resources (see CCP Standard 5 on collateral and CCP Standard 6 on margin). In addition, a central counterparty that is involved in activities with a more complex risk profile or that is systemically important in multiple jurisdictions should maintain additional financial resources to cover a wide range of potential stress scenarios that should include, but not be limited to, the default of the two participants and their affiliates that would potentially cause the largest aggregate credit exposure for the central counterparty in extreme but plausible market conditions. All other central counterparties should maintain additional financial resources sufficient to cover a wide range of potential stress scenarios that should include, but not be limited to, the default of the participant and its affiliates that would potentially cause the largest aggregate credit exposure for the central counterparty in extreme but plausible market conditions. In all cases, a central counterparty should document its supporting rationale for, and should have appropriate governance arrangements relating to, the amount of total financial resources it maintains.
- 4.5 A central counterparty should, through rigorous stress testing, determine the amount and regularly test the sufficiency of its total financial resources available in the event of a default or multiple defaults in extreme but plausible market conditions. Stress tests should be performed daily using standard and predetermined parameters and assumptions. On at least a monthly basis, a central counterparty should perform a comprehensive and thorough analysis of stress-testing scenarios, models and underlying parameters and assumptions used to ensure they are appropriate for determining the central counterparty's required level of default protection in light of current and evolving market conditions. A central counterparty should perform this analysis of stress testing more frequently when the products cleared or markets served display high volatility, become less liquid, or when the size or concentration of positions held by a central counterparty's participants increases significantly. A full validation of a central counterparty's risk management model should be performed at least annually.
- 4.6 In conducting stress testing, a central counterparty should consider the effect of a wide range of relevant stress scenarios in terms of both defaulters' positions and possible price changes in liquidation periods. Scenarios should include relevant peak historic price volatilities, shifts in other market factors such as price determinants and yield curves, multiple defaults over various time horizons, simultaneous pressures in funding and asset markets, and a spectrum of forward-looking stress scenarios in a variety of extreme but plausible market conditions.
- 4.7 A central counterparty should have clearly documented and effective rules and procedures to report stress-test information to appropriate decision-makers and ensure that additional financial resources are obtained on a timely basis in the event that projected stress-test losses exceed available financial resources. Where projected stress-test losses of a single or only a few participants exceed available financial resources, it may be appropriate to increase non-pooled financial resources; otherwise, where projected stress-test losses are frequent and consistently widely dispersed across participants, clear processes should be in place to augment pooled financial resources.
- 4.8 A central counterparty should establish explicit rules and procedures that address fully any credit losses it may face as a result of any individual or combined default among its participants with respect to any of their obligations to the central counterparty. These rules and procedures should address how potentially uncovered credit losses would be allocated, including the repayment of any funds a central counterparty may borrow from liquidity providers. These rules and procedures should also indicate the central counterparty's process to replenish any financial resources that the central counterparty may employ during a stress event, so that the central counterparty can continue to operate in a safe and sound manner.

Standard 5: Collateral

A central counterparty that requires collateral to manage its or its participants' credit exposures should accept collateral with low credit, liquidity and market risks. A central counterparty should also set and enforce appropriately conservative haircuts and concentration limits.

- 5.1 A central counterparty should generally limit the assets it (routinely) accepts as collateral to those with low credit, liquidity and market risks.
- 5.2 In determining its collateral policies, a central counterparty should take into consideration the broad effect of these policies on the market. As part of this, a central counterparty should consider allowing the use of collateral commonly accepted in the relevant jurisdictions in which it operates.
- 5.3 A central counterparty should establish prudent valuation practices and develop haircuts that are regularly tested and take into account stressed market conditions.
- 5.4 In order to reduce the need for procyclical adjustments, a central counterparty should establish stable and conservative haircuts that are calibrated to include periods of stressed market conditions, to the extent practicable and prudent.
- 5.5 A central counterparty should avoid concentrated holdings of certain assets where this would significantly impair the ability to liquidate such assets quickly without significant adverse price effects.
- 5.6 A central counterparty that accepts cross-border collateral should mitigate the risks associated with its use and ensure that the collateral can be used in a timely manner.
- 5.7 A central counterparty should use a collateral management system that is well designed and operationally flexible.

Standard 6: Margin

A central counterparty should cover its credit exposures to its participants for all products through an effective margin system that is risk based and regularly reviewed.

- 6.1 A central counterparty should have a margin system that establishes margin levels commensurate with the risks and particular attributes of each product, portfolio and market it serves.
- 6.2 A central counterparty should have a reliable source of timely price data for its margin system. A central counterparty should also have procedures and sound valuation models for addressing circumstances in which pricing data are not readily available or reliable.
- 6.3 A central counterparty should adopt initial margin models and parameters that are risk based and generate margin requirements sufficient to cover its potential future exposure to participants in the interval between the last margin collection and the close out of positions following a participant default. Initial margin should meet an established single-tailed confidence level of at least 99 per cent with respect to the estimated distribution of future exposure. For a central counterparty that calculates margin at the portfolio level, this requirement applies to each portfolio's distribution of future exposure. For a central counterparty that calculates margin at more granular levels, such as at the sub-portfolio level or by product, the requirement should be met for corresponding distributions of future exposure. The model should: use a conservative estimate of the time horizons for the effective hedging or close out of the particular types of products cleared by the central counterparty (including in stressed market conditions); have an appropriate method for measuring credit exposure that accounts for relevant product risk factors and portfolio effects across products; and to the extent practicable and prudent, limit the need for destabilising, procyclical changes.
- 6.4 A central counterparty should mark participant positions to market and collect variation margin at least daily to limit the build-up of current exposures. A central counterparty should have the authority and operational capacity to make intraday margin calls and payments, both scheduled and unscheduled, to participants.
- 6.5 In calculating margin requirements, a central counterparty may allow offsets or reductions in required margin across products that it clears or between products that it and another central counterparty clear, if the risk of one product is significantly and reliably correlated with the risk of the other product. Where a central counterparty enters into a cross-margining arrangement with one or more other central counterparties, appropriate safeguards should be put in place and steps should be taken to harmonise overall risk management systems. Prior to entering into such an arrangement, a central counterparty should consult with the Reserve Bank.
- 6.6 A central counterparty should analyse and monitor its model performance and overall margin coverage by conducting rigorous daily backtesting and at least monthly, and more frequent where appropriate, sensitivity

analysis. A central counterparty should regularly conduct an assessment of the theoretical and empirical properties of its margin model for all products it clears. In conducting sensitivity analysis of the model's coverage, a central counterparty should take into account a wide range of parameters and assumptions that reflect possible market conditions, including the most volatile periods that have been experienced by the markets it serves and extreme changes in the correlations between prices.

- 6.7 A central counterparty should regularly review and validate its margin system.
- 6.8 In designing its margin system, a central counterparty should consider the operating hours of payment and settlement systems in the markets in which it operates.

Standard 7: Liquidity risk

A central counterparty should effectively measure, monitor and manage its liquidity risk. A central counterparty should maintain sufficient liquid resources in all relevant currencies to effect same-day and, where appropriate, intraday and multiday settlement of payment obligations with a high degree of confidence under a wide range of potential stress scenarios that should include, but not be limited to, the default of the participant and its affiliates that would generate the largest aggregate liquidity obligation for the central counterparty in extreme but plausible market conditions.

- 7.1 A central counterparty should have a robust framework to manage its liquidity risks from its participants, commercial bank money settlement agents, nostro agents, custodians, liquidity providers and other entities.
- 7.2 A central counterparty should have effective operational and analytical tools to identify, measure and monitor its settlement and funding flows on an ongoing and timely basis, including its use of intraday liquidity.
- 7.3 A central counterparty should maintain sufficient liquid resources in all relevant currencies to settle securities-related payments, make required variation margin payments and meet other payment obligations on time with a high degree of confidence under a wide range of potential stress scenarios that should include, but not be limited to, the default of the participant and its affiliates that would generate the largest aggregate payment obligation to the central counterparty in extreme but plausible market conditions. In addition, a central counterparty that is involved in activities with a more complex risk profile or that is systemically important in multiple jurisdictions should consider maintaining additional liquidity resources sufficient to cover a wider range of potential stress scenarios that should include, but not be limited to, the default of the two participants and their affiliates that would generate the largest aggregate payment obligation to the central counterparty in extreme but plausible market conditions.
- 7.4 For the purpose of meeting its minimum liquid resource requirement, a central counterparty's qualifying liquid resources in each currency include cash at the central bank of issue and at creditworthy commercial banks, committed lines of credit, committed foreign exchange swaps and committed repos, as well as highly marketable collateral held in custody and investments that are readily available and convertible into cash with prearranged and highly reliable funding arrangements, even in extreme but plausible market conditions. If a central counterparty has access to routine credit at the central bank of issue, the central counterparty may count such access as part of the minimum requirement to the extent it has collateral that is eligible for pledging to (or for conducting other appropriate forms of transactions with) the relevant central bank. All such resources should be available when needed.
- 7.5 A central counterparty may supplement its qualifying liquid resources with other forms of liquid resources. If the central counterparty does so, these liquid resources should be in the form of assets that are likely to be saleable or acceptable as collateral for lines of credit, swaps or repos on an ad hoc basis following a default, even if this cannot be reliably prearranged or guaranteed in extreme market conditions. Even if a central counterparty does not have access to routine central bank credit, it should still take account of what collateral is typically accepted by the relevant central bank, as such assets may be more likely to be liquid in stressed circumstances. A central counterparty should not assume the availability of emergency central bank credit as part of its liquidity plan.
- 7.6 A central counterparty should obtain a high degree of confidence, through rigorous due diligence, that each provider of its minimum required qualifying liquid resources, whether a participant of the central counterparty or an external party, has sufficient information to understand and to manage its associated liquidity risks, and

that it has the capacity to perform as required under its commitment. Where relevant to assessing a liquidity provider's performance reliability with respect to a particular currency, a liquidity provider's potential access to credit from the central bank of issue may be taken into account. A central counterparty should regularly test its procedures for accessing its liquid resources at a liquidity provider.

- 7.7 A central counterparty with access to central bank accounts, payment services or securities services should use these services, where practical, to enhance its management of liquidity risk. A central counterparty that the Reserve Bank determines to be systemically important in Australia and has obligations in Australian dollars should operate its own Exchange Settlement Account, in its own name or that of a related body corporate acceptable to the Reserve Bank, to enhance its management of Australian dollar liquidity risk.
- 7.8 A central counterparty should determine the amount and regularly test the sufficiency of its liquid resources through rigorous stress testing. A central counterparty should have clear procedures to report the results of its stress tests to appropriate decision-makers at the central counterparty and to use these results to evaluate the adequacy of, and adjust, its liquidity risk management framework. In conducting stress testing, a central counterparty should consider a wide range of relevant scenarios. Scenarios should include relevant peak historic price volatilities, shifts in other market factors such as price determinants and yield curves, multiple defaults over various time horizons, simultaneous pressures in funding and asset markets, and a spectrum of forward-looking stress scenarios in a variety of extreme but plausible market conditions. Scenarios should also take into account the design and operation of the central counterparty, include all entities that might pose material liquidity risks to the central counterparty (such as commercial bank money settlement agents, nostro agents, custodians, liquidity providers and linked FMIs) and, where appropriate, cover a multiday period. In all cases, a central counterparty should document its supporting rationale for, and should have appropriate governance arrangements relating to, the amount and form of total liquid resources it maintains.
- 7.9 A central counterparty should establish explicit rules and procedures that enable the central counterparty to effect same-day and, where appropriate, intraday and multiday settlement of payment obligations on time following any individual or combined default among its participants. These rules and procedures should address unforeseen and potentially uncovered liquidity shortfalls and should aim to avoid unwinding, revoking or delaying the same-day settlement of payment obligations. These rules and procedures should also indicate the central counterparty's process to replenish any liquidity resources it may employ during a stress event, so that it can continue to operate in a safe and sound manner.

Standard 8: Settlement finality

A central counterparty should ensure clear and certain final settlement, at a minimum by the end of the value date. Where necessary or preferable, a central counterparty should facilitate final settlement intraday or in real time.

- 8.1 A central counterparty's rules and procedures should clearly define the point at which settlement is final.
- 8.2 A central counterparty should ensure final settlement no later than the end of the value date, and preferably intraday or in real time, to reduce settlement risk.
- 8.3 A central counterparty should clearly define the point after which unsettled payments, transfer instructions or other obligations may not be revoked by a participant.

Standard 9: Money settlements

A central counterparty should conduct its money settlements in central bank money where practical and available. If central bank money is not used, a central counterparty should minimise and strictly control the credit and liquidity risk arising from the use of commercial bank money.

- 9.1 A central counterparty should conduct its money settlements in central bank money, where practical and available, to avoid credit and liquidity risks. A central counterparty that the Reserve Bank determines to be systemically important in Australia and has Australian dollar obligations should settle its Australian dollar obligations across an Exchange Settlement Account held at the Reserve Bank, in its own name or that of a related body corporate acceptable to the Reserve Bank.
- 9.2 If central bank money is not used, a central counterparty should conduct its money settlements using a

settlement asset with little or no credit or liquidity risk.

- 9.3 If a central counterparty settles in commercial bank money or its participants effect settlements using commercial settlement banks, it should monitor, manage and limit credit and liquidity risks arising from the commercial bank money settlement agents and commercial settlement banks. In particular, a central counterparty should establish and monitor adherence to strict criteria for commercial banks appropriate to their role in the settlement process, taking account of matters such as their regulation and supervision, creditworthiness, capitalisation, access to liquidity and operational reliability. A central counterparty should also monitor and manage the concentration of its and its participants' credit and liquidity exposures to commercial bank money settlement agents and settlement banks.
- 9.4 If a central counterparty conducts money settlements on its own books, it should minimise and strictly control its credit and liquidity risks.
- 9.5 A central counterparty's legal agreements with any commercial bank money settlement agents should state clearly when transfers on the books of the relevant commercial bank are expected to occur, that transfers are to be final when effected, and that funds received should be transferable as soon as possible, at a minimum by the end of the day and ideally intraday, in order to enable the central counterparty and its participants to manage credit and liquidity risks.

Standard 10: Physical deliveries

A central counterparty should clearly state its obligations with respect to the delivery of physical instruments or commodities and should identify, monitor and manage the risks associated with such physical deliveries.

- 10.1 A central counterparty's rules should clearly state its obligations with respect to the delivery of physical instruments or commodities.
- 10.2 A central counterparty should identify, monitor and manage the risks and costs associated with the storage and delivery of physical instruments or commodities.

Standard 11: Exchange-of-value settlements

If a central counterparty is involved in the settlement of transactions that comprise two linked obligations (for example, securities or foreign exchange transactions), it should eliminate principal risk by ensuring that the final settlement of one obligation is conditional upon the final settlement of the other.

- 11.1 A central counterparty should eliminate principal risk associated with the settlement of any obligations involving two linked obligations by ensuring that the payment system or securities settlement facility employed operates in such a way that the final settlement of one obligation occurs if and only if the final settlement of the linked obligation also occurs, regardless of whether the securities settlement facility settles on a gross or net basis and when finality occurs.
- 11.2 A central counterparty should eliminate principal risk associated with the settlement of linked obligations by ensuring that it employs an appropriate delivery versus payment (DvP), delivery versus delivery (DvD) or payment versus payment (PvP) settlement mechanism.

Standard 12: Participant default rules and procedures

A central counterparty should have effective and clearly defined rules and procedures to manage a participant default. These rules and procedures should be designed to ensure that the central counterparty can take timely action to contain losses and liquidity pressures and continue to meet its obligations.

- 12.1 A central counterparty should have default rules and procedures that enable the central counterparty to continue to meet its obligations in the event of a participant default and that address the replenishment of resources following a default. A central counterparty should ensure that financial and other obligations created for non-defaulting participants in the event of a participant default are proportional to the scale and nature of individual participants' activities.
- 12.2 A central counterparty should be well prepared to implement its default rules and procedures, including any

appropriate discretionary procedures provided for in its rules. This requires that the central counterparty should:

- (a) require its participants to inform it immediately if they:
 - (i) become subject to, or aware of the likelihood of external administration, or have reasonable grounds for suspecting that they will become subject to external administration; or
 - (ii) have breached, or are likely to breach, a risk control requirement of the central counterparty; and
- (b) have the ability to close out, hedge or transfer, a participant's open contracts in order to appropriately control risk of a participant that:
 - (i) becomes subject to external administration; or
 - (ii) breaches a risk control requirement of the central counterparty.

12.3 A central counterparty should publicly disclose key aspects of its default rules and procedures.

12.4 A central counterparty should involve its participants and other stakeholders in the testing and review of the central counterparty's default procedures, including any close out procedures. Such testing and review should be conducted at least annually and following material changes to the rules and procedures to ensure that they are practical and effective.

12.5 A central counterparty should demonstrate that its default management procedures take appropriate account of interests in relevant jurisdictions and, in particular, any implications for pricing, liquidity and stability in relevant financial markets.

Standard 13: Segregation and portability

A central counterparty should have rules and procedures that enable the segregation of positions of a participant's customers and the collateral provided to the central counterparty with respect to those positions.

13.1 A central counterparty should, at a minimum, have segregation and portability arrangements that effectively protect a participant's customers' positions and related collateral from the default or insolvency of that participant. If the central counterparty additionally offers protection of such customer positions and collateral against the concurrent default of the participant and a fellow customer, the central counterparty should take steps to ensure that such protection is effective.

13.2 A central counterparty should employ an account structure that enables it readily to identify positions of a participant's customers and to segregate related collateral. A central counterparty should maintain customer positions and collateral in individual customer accounts or in omnibus customer accounts, or equivalent.

13.3 To the extent reasonably practicable under prevailing law, a central counterparty should structure its portability arrangements in a way that makes it highly likely that the positions and collateral of a defaulting participant's customers will be transferred to one or more other participants.

13.4 A central counterparty should disclose its rules, policies and procedures relating to the segregation of a participant's customers' positions and related collateral. In particular, the central counterparty should disclose whether customer collateral is segregated on an individual or omnibus basis. In addition, a central counterparty should disclose any constraints, such as legal or operational constraints, that may impair its ability to segregate or port a participant's customers' positions and related collateral.

Standard 14: General business risk

A central counterparty should identify, monitor and manage its general business risk and hold, or demonstrate that it has legally certain access to, sufficient liquid net assets funded by equity to cover potential general business losses so that it can continue operations and services as a going concern if those losses materialise. Further, liquid net assets should at all times be sufficient to ensure a recovery or orderly wind-down of critical operations and services.

14.1 A central counterparty should have robust management and control systems to identify, monitor and manage general business risks, including losses from poor execution of business strategy, negative cash flows or

unexpected and excessively large operating expenses.

- 14.2 A central counterparty should hold, or demonstrate that it has legally certain access to, liquid net assets funded by equity (such as common stock, disclosed reserves or other retained earnings) so that it can continue operations and services as a going concern if it incurs general business losses. The amount of liquid net assets funded by equity a central counterparty should hold, or have access to, should be determined by its general business risk profile and the length of time required to achieve a recovery or orderly wind-down, as appropriate, of its critical operations and services if such action is taken.
- 14.3 A central counterparty should maintain a viable recovery or orderly wind-down plan and should hold, or have legally certain access to, sufficient liquid net assets funded by equity to implement this plan. At a minimum, a central counterparty should hold, or have legally certain access to, liquid net assets funded by equity equal to at least six months of current operating expenses. These assets are in addition to resources held to cover participant defaults or other risks covered under CCP Standard 4 on credit risk and CCP Standard 7 on liquidity risk. However, equity held under international risk-based capital standards can be included where relevant and appropriate to avoid duplicate capital requirements.
- 14.4 Assets held to cover general business risk should be of high quality and sufficiently liquid in order to allow the central counterparty to meet its current and projected operating expenses under a range of scenarios, including in adverse market conditions.
- 14.5 A central counterparty should maintain a viable plan for raising additional equity should its equity fall close to or below the amount needed. This plan should be approved by the board of directors and updated regularly.

Standard 15: Custody and investment risks

A central counterparty should safeguard its own and its participants' assets and minimise the risk of loss on and delay in access to these assets. A central counterparty's investments should be in instruments with minimal credit, market and liquidity risks.

- 15.1 A central counterparty should hold its own and its participants' assets at supervised and regulated entities that have robust accounting practices, safekeeping procedures and internal controls that fully protect these assets.
- 15.2 A central counterparty should have prompt access to its assets and the assets provided by participants, when required.
- 15.3 A central counterparty should evaluate and understand its exposures to its custodians, taking into account the full scope of its relationships with each.
- 15.4 A central counterparty's investment strategy should be consistent with its overall risk management strategy and fully disclosed to its participants, and investments should be secured by, or be claims on, high-quality obligors. These investments should allow for quick liquidation with little, if any, adverse price effect.

Standard 16: Operational risk

A central counterparty should identify the plausible sources of operational risk, both internal and external, and mitigate their impact through the use of appropriate systems, policies, procedures and controls. Systems should be designed to ensure a high degree of security and operational reliability and should have adequate, scalable capacity. Business continuity management should aim for timely recovery of operations and fulfilment of the central counterparty's obligations, including in the event of a wide-scale or major disruption.

Identifying and managing operational risk

- 16.1 A central counterparty should establish a robust operational risk management framework with appropriate systems, policies, procedures and controls to identify, monitor and manage operational risks.
- 16.2 A central counterparty's board of directors should clearly define the roles and responsibilities for addressing operational risk and should endorse the central counterparty's operational risk management framework. Systems, operational policies, procedures and controls should be reviewed, audited and tested periodically and after significant changes.

- 16.3 A central counterparty should have clearly defined operational reliability objectives and should have policies in place that are designed to achieve those objectives. These policies include, but are not limited to, having: exacting targets for system availability; scalable capacity adequate to handle increasing stress volumes; and comprehensive physical and information security policies that address all potential vulnerabilities and threats.
- 16.4 A central counterparty should ensure that it can reliably access and utilise well-trained and competent personnel, as well as technical and other resources. These arrangements should be designed to ensure that all key systems are operated securely and reliably in all circumstances, including where a related body becomes subject to external administration.
- 16.5 A central counterparty should identify, monitor and manage the risks that key participants, other FMIs and service and utility providers might pose to its operations. A central counterparty should inform the Reserve Bank of any critical dependencies on utilities or service providers. In addition, a central counterparty should identify, monitor and manage the risks its operations might pose to its participants and other FMIs. Where a central counterparty operates in multiple jurisdictions, managing these risks may require it to provide adequate operational support to participants during the market hours of each relevant jurisdiction.
- 16.6 A participant of a central counterparty should have complementary operational and business continuity arrangements that are appropriate to the nature and size of the business undertaken by that participant. The central counterparty's rules and procedures should clearly specify operational requirements for participants.

Business continuity arrangements

- 16.7 A central counterparty should have a business continuity plan that addresses events posing a significant risk of disrupting operations, including events that could cause a wide-scale or major disruption. The plan should incorporate the use of a secondary site and should be designed to ensure that critical information technology systems can resume operations within two hours following disruptive events. Business continuity arrangements should provide appropriate redundancy of critical systems and appropriate mitigants for data loss. The business continuity plan should be designed to enable the central counterparty to facilitate settlement by the end of the day of the disruption, even in case of extreme circumstances. The central counterparty should regularly test these arrangements.
- 16.8 A central counterparty should consider making contingency testing compulsory for the largest participants to ensure they are operationally reliable and have in place tested contingency arrangements to deal with a range of operational stress scenarios that may include impaired access to the central counterparty.

Outsourcing and other dependencies

- 16.9 A central counterparty that relies upon, outsources some of its operations to, or has other dependencies with a related body, another FMI or a third-party service provider (for example, data processing and information systems management) should ensure that those operations meet the resilience, security and operational performance requirements of these CCP Standards and equivalent requirements of any other jurisdictions in which it operates.
- 16.10 All of a central counterparty's outsourcing or critical service provision arrangements should provide rights of access to the Reserve Bank to obtain sufficient information regarding the service provider's operation of any critical functions provided. A central counterparty should consult with the Reserve Bank prior to entering into an outsourcing or service provision arrangement for critical functions.
- 16.11 A central counterparty should organise its operations, including any outsourcing or critical service provision arrangements, in such a way as to ensure continuity of service in a crisis and to facilitate effective crisis management actions by the Reserve Bank or other relevant authorities. These arrangements should be commensurate with the nature and scale of the central counterparty's operations.

Standard 17: Access and participation requirements

A central counterparty should have objective, risk-based and publicly disclosed criteria for participation, which permit fair and open access.

- 17.1 A central counterparty should allow for fair and open access to its services, including by direct and, where relevant, indirect participants and other FMIs, based on reasonable risk-related participation requirements.

- 17.2 A central counterparty's participation requirements should be justified in terms of the safety of the central counterparty and the markets it serves, be tailored to and commensurate with the central counterparty's specific risks, and be publicly disclosed. Subject to maintaining acceptable risk control standards, a central counterparty should endeavour to set requirements that have the least restrictive impact on access that circumstances permit.
- 17.3 A central counterparty should monitor compliance with its participation requirements on an ongoing basis and have clearly defined and publicly disclosed procedures for facilitating the suspension and orderly exit of a participant that breaches, or no longer meets, the participation requirements.

Standard 18: Tiered participation arrangements

A central counterparty should identify, monitor and manage the material risks to the central counterparty arising from tiered participation arrangements.

- 18.1 A central counterparty should ensure that its rules, procedures and agreements allow it to gather basic information about indirect participation in order to identify, monitor and manage any material risks to the central counterparty arising from such tiered participation arrangements.
- 18.2 A central counterparty should identify material dependencies between direct and indirect participants that might affect the central counterparty.
- 18.3 A central counterparty should identify indirect participants responsible for a significant proportion of transactions processed by the central counterparty and indirect participants whose transaction volumes or values are large relative to the capacity of the direct participants through which they access the central counterparty in order to manage the risks arising from these transactions.
- 18.4 A central counterparty should regularly review risks arising from tiered participation arrangements and should take mitigating action when appropriate.

Standard 19: FMI links

A central counterparty that establishes a link with one or more FMIs should identify, monitor and manage link-related risks.

- 19.1 Before entering into a link arrangement, and on an ongoing basis once the link is established, a central counterparty should identify, monitor and manage all potential sources of risk arising from the link arrangement. Link arrangements should be designed such that the central counterparty is able to comply with these CCP Standards.
- 19.2 A link should have a well-founded legal basis, in all relevant jurisdictions, that supports its design and provides adequate protection to the central counterparty and other FMIs involved in the link.
- 19.3 Where relevant to its operations in Australia, a central counterparty should consult with the Reserve Bank prior to entering into a link arrangement with another FMI.
- 19.4 Before entering into a link with another central counterparty, a central counterparty should identify and manage the potential spillover effects from the default of the linked central counterparty. If a link has three or more central counterparties, a central counterparty should identify, assess and manage the risks of the collective link arrangement.
- 19.5 A central counterparty in a central counterparty link arrangement should be able to cover, at least on a daily basis, its current and potential future exposures to the linked central counterparty and its participants, if any, fully with a high degree of confidence without reducing the central counterparty's ability to fulfil its obligations to its own participants at any time.

Standard 20: Disclosure of rules, key policies and procedures, and market data

A central counterparty should have clear and comprehensive rules, policies and procedures and should provide sufficient information and data to enable participants to have an accurate understanding of the risks they incur by participating in the central counterparty. All relevant rules and key policies and procedures should be publicly disclosed.

- 20.1 A central counterparty should adopt clear and comprehensive rules, policies and procedures that are fully disclosed to participants. Relevant rules and key policies and procedures should also be publicly disclosed (including specific requirements relating to CCP Standards 1.4, 2.2, 12.3, 13.4, 15.4, 17.2 and 17.3).
- 20.2 A central counterparty's rules, policies and procedures should clearly identify the nature and scope of the risk exposure assumed by the central counterparty, such as by novation, open offer or other similar legal devices. A central counterparty's rules, policies and procedures should clearly identify the point in the clearing process at which the central counterparty assumes the risk exposure.
- 20.3 A central counterparty should disclose clear descriptions of the system's design and operations, as well as the central counterparty's and participants' rights and obligations, so that participants can assess the risks they would incur by participating in the central counterparty (see CCP Standards 2.8 and 9.5).
- 20.4 A central counterparty should provide all necessary and appropriate documentation and training to facilitate participants' understanding of the central counterparty's rules, policies and procedures and the risks they face from participating in the central counterparty.
- 20.5 A central counterparty should complete regularly and disclose publicly responses to the CPSS-IOSCO *Disclosure Framework for Financial Market Infrastructures*. A central counterparty also should, at a minimum, disclose basic risk and activity data, as directed by the Reserve Bank from time to time.

Standard 21: Regulatory reporting

A central counterparty should inform the Reserve Bank in a timely manner of any events or changes to its operations or circumstances that may materially impact its management of risks or ability to continue operations. A central counterparty should also regularly provide information to the Reserve Bank regarding its financial position and risk controls on a timely basis.

- 21.1 A central counterparty should inform the Reserve Bank as soon as reasonably practicable if:
 - (a) it breaches, or has reason to believe that it will breach:
 - (i) a CCP Standard; or
 - (ii) its broader legislative obligation to do, to the extent that it is reasonably practicable to do so, all things necessary to reduce systemic risk;
 - (b) it becomes subject to external administration, or has reasonable grounds for suspecting that it will become subject to external administration;
 - (c) a related body to the central counterparty becomes subject to external administration, or if the central counterparty has reasonable grounds for suspecting that a related body will become subject to external administration;
 - (d) a participant becomes subject to external administration, or if the central counterparty has reasonable grounds for suspecting that a participant will become subject to external administration;
 - (e) a participant fails to meet its obligations under the central counterparty's risk control requirements or has its participation suspended or cancelled because of a failure to meet the central counterparty's risk control requirements;
 - (f) it fails to enforce any of its own risk control requirements;
 - (g) it plans to make significant changes to its risk control requirements or its rules, policies and procedures;
 - (h) it or a service it relies on from a third party or outsourced provider experiences a significant operational disruption, including providing the conclusions of its post-incident review;
 - (i) any internal audits or independent external expert reviews are undertaken of its operations, risk management processes or internal control mechanisms, including providing the conclusions of such audits or reviews;
 - (j) its operations or risk controls are affected, or are likely to be affected, by distress in financial markets;
 - (k) it has critical dependencies on utilities or service providers, including providing a description of the dependency and an update if the nature of this relationship changes;

- (l) it proposes to grant a security interest over its assets (other than a lien, right of retention or statutory charge that arises in the ordinary course of business);
- (m) it proposes to incur or permit to subsist any loans from participants or members unless such loans are subordinated to the claims of all other creditors of the central counterparty; or
- (n) any other matter arises which has or is likely to have a significant impact on its risk control arrangements (see also CCP Standards 1.6, 16.10 and 19.3).

21.2 A central counterparty should also provide to the Reserve Bank, on a timely basis:

- (a) audited annual accounts;
- (b) management accounts on a regular basis, and at least quarterly;
- (c) risk management reports, including detailed information on margining and stress testing, on a regular basis, and at least quarterly;
- (d) periodic activity, risk and operational data, as agreed with the Reserve Bank; and
- (e) any other information as specified by the Reserve Bank from time to time.

Glossary

Unless the contrary intention appears, the terms in the *Financial Stability Standards for Central Counterparties* (CCP Standards) have the meanings provided for in this Glossary. Wordings or terms used in this Glossary importing the singular shall include the plural and vice versa where the context requires.

*Note: This Glossary is based largely on the glossary to the Principles, and the CPSS Glossary of Terms Used in Payments and Settlement Systems, added to and amended by the Reserve Bank as appropriate.*³

Term	Definition
affiliate	This term means 'associated entity' as defined in section 50AAA of the <i>Corporations Act 2001</i> .
backtesting	A comparison of previously observed outcomes with expected outcomes derived from the use of margin models.
business continuity	A state of uninterrupted business operations. This term also refers to all of the organisational, technical and staffing measures used to ensure the continuation of operations following a disruption to a service, including in the event of a wide-scale or major disruption.
central bank money	A liability of a central bank, in this case in the form of deposits held at the central bank, which can be used for settlement purposes.
central counterparty	An entity that interposes itself between counterparties to contracts traded in one or more financial markets, becoming the buyer to every seller and the seller to every buyer, and thereby ensuring the performance of open contracts.
clearing	The process of transmitting, reconciling and, in some cases, confirming transactions prior to settlement, potentially including the netting of transactions and the establishment of final positions for settlement. For the clearing of futures and options, this term also refers to the daily balancing of profits and losses and the daily calculation of collateral requirements.
close out	The process of offsetting an existing contract by entering into a new contract of an equal and opposite position.
collateral	An asset or third-party commitment that is used by a collateral provider to secure an obligation vis-à-vis a collateral taker.
commercial bank money	A liability of a commercial bank, in the form of deposits held at the commercial bank, which can be used for settlement purposes.
conflict of laws	An inconsistency or difference in the laws of jurisdictions that have a potential interest in a transaction.
counterparty	A party to a trade.
credit risk	The risk that a counterparty, whether a participant or other entity, will be unable to meet fully its financial obligations when due, or at any time in the future.
cross-margining arrangement	An agreement among central counterparties to consider positions and supporting collateral at their respective organisations as a common portfolio for participants that are members of two or more of the organisations.

³ A *Glossary of Terms Used in Payments and Settlement Systems* is available at <<http://www.bis.org/publ/cpss00b.pdf>>.

Term	Definition
current exposure	The loss that a central counterparty (or in some cases, its participants) would face immediately if a participant were to default. Current exposure is technically defined as the larger of zero or the market value (or replacement cost) of a transaction or portfolio of transactions within a netting set with a counterparty that would be lost upon the default of the counterparty.
custody risk	The risk of loss on assets held in custody in the event of a custodian's (or sub-custodian's) insolvency, negligence, fraud, poor administration or inadequate recordkeeping.
default	An event stipulated in an agreement as constituting a breach or default. Generally, such events relate to a failure to complete a transfer of funds or securities in accordance with the terms and rules of the system in question.
delivery versus delivery (DvD)	A securities settlement mechanism that links two securities transfers in such a way as to ensure that delivery of one security occurs if and only if the corresponding delivery of the other security occurs.
delivery versus payment (DvP)	A securities settlement mechanism that links a securities transfer and a funds transfer in such a way as to ensure that delivery occurs if and only if the corresponding payment occurs.
Exchange Settlement Account	An account held at the Reserve Bank which is used for the final settlement of obligations between Exchange Settlement Account holders.
external administration	This term has the meaning given by section 5 of the <i>Payment Systems and Netting Act 1998</i> .
final settlement	The irrevocable and unconditional transfer of an asset or financial instrument, or the discharge of an obligation by a central counterparty or its participants in accordance with the terms of the underlying contract. Final settlement is a legally defined moment.
financial market infrastructure (FMI)	A multilateral system among participating institutions, including the operator of the system, used for the purposes of clearing, settling or recording payments, securities, derivatives or other financial transactions. Examples of FMIs include central counterparties, securities settlement facilities, securities settlement systems, central securities depositories, payments systems and trade repositories.
general business risk	Any potential impairment of the central counterparty's financial position (as a business concern) as a consequence of a decline in its revenues or an increase in its expenses, such that expenses exceed revenues and result in a loss that must be charged against capital.
governance	The set of relationships between a central counterparty's owners, board of directors (or equivalent), management and other relevant parties, including participants, authorities and other stakeholders (such as participants' customers, other interdependent FMIs and the broader market).
haircut	A risk control measure applied to underlying assets whereby the value of those underlying assets is calculated as the market value of the assets reduced by a certain percentage (the 'haircut'). Haircuts are applied by a collateral taker in order to protect itself from losses resulting from declines in the market value of a security in the event that it needs to liquidate that collateral.
initial margin	Collateral that is collected to cover potential changes in the value of each participant's position (that is, potential future exposure) over the appropriate close out period in the event that the participant defaults.

Term	Definition
investment risk	The risk of loss faced by a central counterparty when it invests its own or its participants' resources, such as collateral.
legal risk	The risk of the unexpected application of a law or regulation, usually resulting in a loss.
linked FMI	An FMI that is connected with one or more other FMIs, either directly or through an intermediary, according to a set of contractual and operational arrangements between the FMIs involved in the link.
liquidity risk	The risk that a counterparty, whether a participant or other entity, will have insufficient funds to meet its financial obligations as and when expected, although it may be able to do so in the future.
mark to market	The practice of revaluing securities and financial instruments using current market prices.
money settlement agent	The entity whose assets are used to settle the ultimate payment obligations arising from securities transfers within a securities settlement facility, or other clearing and settlement activities. Accounts with the money settlement agent are held by settlement banks, which may act on their own behalf and/or offer payment services to participants that do not have accounts with the money settlement agent.
multilateral net batch	The settlement of groups of payments, transfer instructions or other obligations together at a discrete, often pre-specified time, where these obligations have been offset among multiple participants.
novation	A process through which the original obligation between a buyer and a seller is discharged through the substitution of a central counterparty as seller to the buyer and buyer to the seller, creating two new contracts.
omnibus	An account structure where securities or collateral belonging to some or all customers of a particular participant are commingled and held in a single account segregated from those of the participant.
open offer	A process through which a central counterparty extends an 'open offer' to act as counterparty to market participants and thereby is interposed between participants at the time a trade is executed.
operational risk	The risk that deficiencies in information systems or internal processes, human errors, management failures or disruptions from external events will result in the reduction, deterioration or breakdown of services provided by a central counterparty.
payment system	A set of instruments, procedures and rules for the transfer of funds between or among participants; the system includes the participants and the entity operating the arrangement.
payment versus payment (PvP)	A settlement mechanism that ensures that the final transfer of a payment in one currency occurs if and only if the final transfer of a payment in another currency or currencies takes place.
physical delivery	The delivery of an asset, such as an instrument or commodity, in physical form.
pooled resources	Financial resources of a central counterparty that are available in the event of a participant default, and are not restricted in their use to a particular participant. Pooled resources may be provided on a mutualised basis by participants, may be provided on a commercial basis by an external provider (such as a commercial lender, investor, insurer or liquidity provider), or may be backed by the central counterparty's own capital or that of a related body.

Term	Definition
portability	The operational aspects of the transfer of contractual positions, funds or securities from one party to another party.
potential future exposure	Any potential credit exposure that a central counterparty could face at a future point in time. Potential future exposure is technically defined as the maximum exposure estimated to occur at a future point in time at a high level of statistical confidence. Potential future exposure arises from potential fluctuations in the market value of a participant's open positions between the time they are incurred or reset to the current market price, and the time they are liquidated or effectively hedged.
principal risk	The risk that a counterparty will lose the full value involved in a transaction, for example, the risk that a seller of a financial asset will irrevocably deliver the asset but not receive payment.
procyclicality	Changes in risk management requirements or practices that are positively correlated with business or credit cycle fluctuations and that may cause or exacerbate financial instability.
real-time gross settlement (RTGS)	The real-time settlement of payments, transfer instructions or other obligations individually on a transaction-by-transaction basis.
related body	A 'related body corporate' as defined in section 9 of the Corporations Act.
replacement cost	The unrealised gain on the unsettled contract or the cost of replacing the original contract at market prices that may be changing rapidly during periods of stress.
repurchase agreement (repo)	A contract to sell and subsequently repurchase securities at a specified date and price.
securities	Any financial product (within the meaning given in the Corporations Act) of a kind in relation to which obligations are prescribed under the Corporations Regulations 2001 for the purposes of section 768A(1)(b) of the Corporations Act.
securities settlement facility	A clearing and settlement facility that enables its participants to transfer title to or other interests in securities, typically in return for payment. A securities settlement facility may also operate a central securities depository.
segregation	A method of protecting customer collateral and contractual positions by holding or accounting for them separately from those of the direct participant (such as a carrying firm or broker).
settlement bank	The entity that maintains accounts with the money settlement agent in order to settle payment obligations arising from securities transfers, or other clearing and settlement activities, both on its own behalf and for other market participants.
settlement risk	The general term used to designate the risk that settlement in a funds or securities transfer system will not take place as expected. This risk may comprise both credit and liquidity risk.
stress testing	The estimation of credit and liquidity exposures that would result from the realisation of extreme price changes.
systemic risk	The risk that the inability of one or more participants to perform as expected will cause other participants to be unable to meet their obligations when due.

Term	Definition
systemically important	A central counterparty is systemically important if its distress or disorderly failure, because of its size, complexity and systemic interconnectedness, would cause significant disruption to the wider financial system and economic activity. In assessing the systemic importance of a central counterparty in Australia, the Reserve Bank will take into account relevant factors, including: the size of the central counterparty in Australia; the availability of substitutes for the central counterparty's services in Australia; the nature and complexity of the products cleared by the central counterparty; and the degree of interconnectedness with other parts of the Australian financial system.
unwinding	The process used to recalculate obligations in some net settlement systems where transfers between the accounts of participants are provisional until all of them have finally discharged their settlement obligations. If a particular participant fails to settle, some or all of the provisional transfers involving that participant are deleted from the system and the settlement obligations of the remaining participants are recalculated.
value date	The day on which the payment, transfer instruction or other obligation is due and the associated funds and securities are typically available to the receiving participant.
variation margin	Funds that are collected and paid out to reflect current exposures resulting from actual changes in market prices.