

Guidance Note

Released:

07 June 2019
Version: 3

Key concepts

Concentration Risk in Client Accounts

Related Information

FGL Operating Rules

3.3.11 and 3.7.2

FEX Guidance Note

GN 7 - Beneficial Owner

Recommended Audience

Compliance Managers

Settlement and Treasury Managers

Previous Issues:

Nil

GN 16 - Key Client Risk

Introduction

A Trading Participant must ensure that no single Client represents such a proportion of the Trading Participant's Derivatives business that it may adversely affect the ability of the Trading Participant to comply with its obligations under the Operating Rules.

Guidance

Expectation of the Exchange

FGL Operating Rules impose an obligation upon Trading Participants to maintain appropriate trading risk management processes and procedures. One specific risk that the Trading Participant is expected to manage is the commercial risk of having a concentration of total business within a single client.

The Exchange will, during its regular review of Trading Participants, seek confirmation of the maximum level of business any single client constitutes and will seek clarification of what processes or actions are in place within the Trading Participant to ensure that the financial risks for the Trading Participant relating to this client have been suitably addressed.

The Exchange is open to the view that such client concentration risks may be managed in a variety of ways and therefore does not prescribe a particular set of actions or mechanisms for Trading Participants.

Exceptions

Where a Trading Participant acts only on behalf of itself or a Related Entity the Exchange will not view this structure as one to which a Client concentration risk is applicable as the Trading Participant must already demonstrate its financial stability to the Exchange on an ongoing basis.

FGL has issued this Guidance Note to give general assistance to Trading Participants and Clearing Entities in their compliance with the Operating Rules. FGL is not bound by this Guidance Note in any particular case. This Guidance Note is not legal advice and Trading Participants and Clearing Entities should seek their own professional advice on their obligations under the Operating Rules in their particular circumstances. FGL may replace this Guidance Note at any time. Current Guidance Notes are available at www.fex.com.au/Guidance or by contacting FGL on enquiries@fex.com.au or on +61 2 8024 5200

Defined terms in this Guidance Note have the meaning given in the Operating Rules.