



# ASX OTC Interest Rate Derivatives Clearing

## Consultation on OTC Rule and Handbook amendments

Consultation Paper

January 2014

ESK ESM ESN ESR ESU ETE EUG EUM EVE EVM EVN EVR EVZ EWC EXA EXC EXE EXG EXM EXR EZA  
EZL FAC FAN FAR FAS FBU FCN FCR FDC FDC FDC FEL FED FFF FFI FGE FGF FGI FIE FIS  
FKP FKP FLK FLR FLT FMA FMB FMG FML FMM FNN FMS FND FNP FNT FOB FOT FOX FOY FPG FPH

## Introduction

### Background

On 17 January 2014, ASX issued a [market circular](#) confirming that ASX had received regulatory clearance from the Australian Securities and Investments Commission and the Reserve Bank for the ASX Clear (Futures) Operating Rules for ASX's new client clearing service for OTC Interest Rate Derivatives and ASX 24 Exchange Traded Derivatives. Subject to prior Ministerial disallowance, the Operating Rules will commence on 11 February 2014.

ASX proposes to make further amendments to the Operating Rules and Handbook for OTC Interest Rate Derivatives clearing, as outlined in this paper. ASX's proposed amendments to the OTC Rules, and most of the proposed amendments to the OTC Handbook, are intended to take effect prior to the commercial launch of OTC Client Clearing (expected end Q1 2014).

### Purpose

ASX seeks feedback from OTC Participants in relation to ASX's proposal to:

- remove 're-bilateralisation' from the OTC Rules;
- amend the pre-conditions for portfolio compression; and
- extend the OTC Clearing Service to cover forward start interest rate swaps (IRS) and overnight indexed swaps (OIS) and 1 Month Floating Rate Products.

ASX's proposed amendments to the OTC Rules and Handbook outlined below are available at [www.asx.com.au/documents/clearing/draft-operating-rules.pdf](http://www.asx.com.au/documents/clearing/draft-operating-rules.pdf).

Questions and comments on the proposed amendments should be directed to Gavin Davis, Legal Counsel ([gavin.davis@asx.com.au](mailto:gavin.davis@asx.com.au) or (02) 9227 7024) or Allan McGregor, Manager, Derivatives & OTC Clearing Services ([allan.mcgregor@asx.com.au](mailto:allan.mcgregor@asx.com.au) or (02) 9227 0814). The consultation period closes on 7 February 2014.

## Removal of re-bilateralisation

In the OTC Rules, 're-bilateralisation' is the term used for the process in which two OTC Open Contracts which have equal but offsetting terms may be removed from the clearing facility.

ASX proposes to remove the concept of re-bilateralisation from the OTC Rules in order to align with the approach of central counterparties internationally and to conform with the expectations of regulators that a cleared trade remains cleared. OTC Participants will effect trade amendments and cancellations through trade netting rather than re-bilateralisation. Complementary amendments to the rules for trade netting are also proposed.

ASX plans to address the current uses of re-bilateralisation in the OTC Rules for House and Client trades as follows:

	Current	Proposed
Re-bilateralisation (or de-clearing) (OTC Rule 4.12)	Re-bilateralisation	Not available
Trade amendment (OTC Rule 4.10)	Re-bilateralisation and re-submission	Amend Notional Amount: trade netting Amendments other than Notional Amount: cancel and replace by trade netting and submission of a new trade
Trade cancellation (OTC Rule 4.10)	Re-bilateralisation	Trade netting

	Current	Proposed
Transfer of OTC Open Contracts (OTC Rule 4.13)	Re-bilateralisation and re-submission	Request for transfer and novation
Termination/suspension of OTC Participant (OTC Rule 2.13)	ASX may require a suspended OTC Participant to dispose of Open OTC Contracts by re-bilateralisation	ASX may require a suspended OTC Participant to dispose of Open OTC Contracts by trade netting, transfer or a combination of both

#### Key Operating Rules:

OTC Rules 4.10 (Trade amendment and cancellation), 4.12 (Re-bilateralisation), 4.13 (Transfer of Open Contracts), 4.15 (Netting of OTC Open Contracts)

#### Consultation Questions:

- 1: Do you agree with the proposed deletion of re-bilateralisation and the proposed removal of the ability of OTC Participants to 'de-clear'?
- 2: Do you agree with the proposed use of netting to effect trade amendments and cancellations?

## Portfolio compression

It was originally contemplated that the Product Committee would vote on and set requirements for, and be consulted in relation to portfolio compression. However, changes to the mandate of the Product Committee will result in representation on the committee being extended to both Futures and OTC Participants. ASX has concluded that the Product Committee is not the appropriate forum for recommendations on portfolio compression of OTC Open Contracts. ASX instead proposes to make OTC portfolio compression conditional on obtaining the written consent of the majority of OTC Participants, and to retain a discretion not to proceed with portfolio compression where appropriate.

#### Key Operating Rules:

OTC Rule 4.14 and OTC handbook 4.14

#### Consultation Questions:

- 1: Do you agree with the proposed amendments to the approval process for OTC portfolio compression?

## Extension of OTC product scope

### Addition of Forward Start Swaps

Recent discussions with OTC Participants have indicated that the OTC Clearing Service should be extended to cover forward start interest rate swaps (IRS) and overnight indexed swaps (OIS) (together, "Forward Start Swaps"), as there is a significant amount of interbank volume that occurs with a forward start date. ASX seeks to respond to market demand by including Forward Start Swaps within the scope of the Eligibility Criteria for OTC Transactions.

ASX proposes to introduce Forward Start Swaps in time for the commencement of OTC Client Clearing (expected end Q1 2014).

## Addition of 1 Month Floating Rate Products

Based on feedback from OTC Participants, Swap Execution Facilities and end-users of OTC interest rate derivatives, ASX also intends to provide coverage of the following BBSW 1 Month Floating Rate Products:

- 1m vs Fixed, Interest Rate Swaps
- 1m vs 3m Basis Swaps
- 1m vs 6m Basis Swaps

1 Month Floating Rate Products are used to offset monthly exposures linked to physical debt and other assets.

ASX has not yet set a proposed date for the introduction of 1m Floating Rate Products, but anticipates that it will be after the commencement of OTC Client Clearing (expected end Q1 2014).

### Key Operating Rules:

OTC Handbook, Schedule 1 – OTC Eligibility Criteria

### Consultation Questions:

1: Do you agree with extending the OTC Clearing Service to cover Forward Start Swaps and 1 Month Floating Rate Products?