



ASX OTC Interest Rate Derivatives Clearing

**Consultation paper on OTC
fallback rate provisions and OTC
product eligibility enhancements**

21 March 2022



Invitation to comment

ASX is seeking submissions on the issues canvassed in this paper by 29 April 2022. Submissions should be sent to: E allan.mcgregor@asx.com.au

If you would like your submission, or any part of it, to be treated as confidential, please indicate this clearly. All submissions will be provided to regulators on request. They may also be published on the ASX website, unless they are clearly marked as confidential or ASX considers that there are reasons not to do so.

ASX is available to meet with interested parties for bilateral discussions on these matters.

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Introduction

This consultation paper covers two topics. First, ASX Clear (Futures) (**ASX**) is consulting on the implementation of benchmark fallback rate provisions in relation to the OTC interest rate derivatives products cleared by ASX, in accordance with the global benchmark reform agenda. For the purpose of providing fallback rate certainty in the event of an Index Cessation Event or an Administrator/Benchmark Event for BBSW and BKBM, ASX proposes to implement the fallback rate provisions for the BBSW and BKBM benchmark rates set out in the 2021 ISDA Definitions to both new and legacy trades.

Second, ASX also proposes to introduce OTC product enhancements to support:

- The Actual/Actual ICMA Day Count Convention to support clearing of Assets Swaps.
- IMM AUD roll convention, the industry convention to enable swaps to roll on ASX's bank bill futures dates.

ASX's proposed amendments to the ASX OTC Rules and Handbook outlined in this Consultation Paper are included as Schedule 1.

This consultation paper seeks feedback from stakeholders on the proposed amendments to the ASX OTC Rules and Handbook to implement these changes. Subject to consultation feedback and regulatory clearance, it is expected that the amendments to the ASX OTC Rules and Handbook will be implemented effective 27 June 2022.

Responses to this Consultation Paper should be submitted to ASX by 29 April 2022.

Proposed OTC Rule and Handbook Amendments

Implementation of fallback rate provisions under the 2021 ISDA Definitions

While investments have been made in Australia and New Zealand to continue the robust production of the BBSW and BKBM benchmark rates, ASX is proposing to adopt a globally consistent approach to implement fallback rate provisions to meet market expectations of fallback rate certainty in the event of an Index Cessation Event or an Administrator/Benchmark event.

On 23 October 2020, ISDA launched its IBOR Fallbacks Supplement¹ and IBOR Fallbacks Protocol² which amended and supplemented ISDA's standard definitions and facilitated arrangements to incorporate robust contractual fallbacks for derivatives linked to certain inter-bank offered rates (**IBORS**). On 4 October 2021, ISDA launched the new 2021 ISDA Interest Rate Derivatives Definitions (2021 ISDA Definitions) which, amongst other changes, incorporated the Fallbacks

¹ ISDA IBOR Fallbacks Supplement is available here: <http://assets.isda.org/media/3062e7b4/23aa1658-pdf/>

² ISDA IBOR Fallbacks Protocol assets.isda.org/media/3062e7b4/08268161-pdf/

Supplement and IBOR Fallback Protocol. Further, on 16 December 2021, the 2021 ISDA Definitions were amended to add fallbacks to a number of IBOR Rate Options including NZD denominated benchmark rates.

Accordingly, following the incorporation of the 2021 ISDA Definitions in the ASX OTC Rules and Handbook on 4 October 2021, ASX proposes to amend the ASX OTC Rules and Handbook to implement the fallback rate provisions for the BBSW and BKBM benchmark rates set out in the 2021 ISDA Definitions to both new and legacy trades effective 27 June 2022. As a result, all OTC Open Contracts (whether cleared by ASX prior to, on or after 27 June 2022) will be treated as if they incorporated the relevant fallback provisions contained within the 2021 ISDA Definitions. That means (subject to the OTC Rules or any specific actions determined by ASX in its absolute discretion), ASX will apply any Permanent Cessation Fallback under the 2021 ISDA Definitions to an OTC Open Contract affected by an Index Cessation Event or Administrator/Benchmark Event.

ASX's proposal outlined above is consistent with the approach taken for bilateral derivatives transactions under ISDA documentation and the implementation frameworks of other global CCPs clearing Interest Rate Swaps.

Key ASX OTC Rules and Handbook References

OTC Rules: 1.10 (OTC Terms)

Schedule 2 – 3.10 (Permanent Cessation Fallbacks)

Consultation Questions

1. Do you support ASX treating all cleared transactions (including legacy trades) as if they incorporated the relevant fallback provisions contained within the 2021 ISDA Definitions?
2. ASX's proposed approach is intended to be consistent with the approach for bilateral transactions and with the approach taken by other CCPs. Do you support this approach? If not, please indicate why.
3. Are there other ancillary matters that should be addressed in ASX's proposed amendments to the OTC Rules and Handbook?

OTC Product Enhancements

In response to OTC Participant feedback, ASX proposes to introduce the OTC product enhancements outlined below effective 27 June 2022.

Asset Swaps with Actual/Actual. ICMA Day Count Convention

ASX recognises that there has been an uptick in OTC transactions in Asset Swaps³. To support the activity of OTC Participants and their OTC Affiliates and clients, ASX proposes to extend its eligibility criteria to include the Actual/Actual ICMA Day Count Convention in addition to the Actual/Actual ISDA Day Count Convention. The Actual/Actual ICMA Day Count Convention divides the actual number of days by the actual number of days in the coupon period multiplied by the frequency. The Actual/Actual ISDA Day Count Convention divides the actual number of days in a leap year by 366 and the actual number of days in a standard year by 365.

³ Where a physical bond (e.g. semi government security) and an associated interest rate swap are transacted at the same time.

IMM Rolls

In order to assist OTC Participants and their clients to trade single period and other swaps and facilitate greater straight through processing across different clearing venues, ASX proposes to add support for IMM Rolls. The IMM roll convention ASX proposes to support is:

- IMM AUD roll convention, that will enable swaps to roll on ASX's bank bill futures dates, namely the Thursday before the second Friday of March, June, September and December.

Key ASX OTC Handbook References – OTC Product Enhancements

OTC Handbook: Schedule 1 – OTC Eligibility Criteria: IRS 3.5 (Day Count Fractions) & 3.31 (Date Roll Convention); OIS 4.5 (Day Count Fractions) & 4.28 (Date Roll Conventions); Basis Swap 5.5 (Day Count Fraction) 5.30 (Date Roll Conventions)

Schedule 2 - OTC Terms: 2.3(o) (OTC Transaction Type: Interest Rate Derivatives)

Consultation Questions

1. Do you support the addition of the Actual/Actual ICMA Day Count Convention and IMM rolls as proposed?
2. Are there other ancillary matters that should be addressed in ASX's proposed amendments to the OTC Handbook?

Next Steps

ASX seeks stakeholders' views on the draft amendments to the ASX OTC Rules and Handbook. Submissions should be made by 29 April 2022 to [Allan McGregor](#).

ASX welcomes the opportunity to discuss the draft amendments with interested parties (refer to the contact details on page 2).