

# ASX OTC Interest Rate Derivatives Clearing

Response to Consultation on OTC Rule and Handbook  
amendments related to Default Management processes

CONSULTATION RESPONSE

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## Consultation Process

On 13 February 2017, ASX released a [Consultation Paper](#) seeking comment from OTC Participants in relation to ASX's proposal to amend the OTC Default Management Group ('DMG') framework to reflect feedback from OTC Participants and learnings from recent OTC default simulations ('fire drills').

ASX received two formal submissions from OTC Participants in response to the Consultation Paper, both of which were confidential. ASX thanks those who shared their views during the consultation process.

It is not necessary for ASX to make any substantive amendments to the OTC Rules and Handbook to address the matters raised in the submissions. ASX addresses those matters by clarifying its expectations of DMG members, non-DMG Members and OTC Participants as explained in this response document.

In response to regulator feedback, ASX will require a minimum DMG membership of six (6) (rather than five (5)) institutions. A DMG of six members will better accommodate a situation in which two OTC Participants are in default simultaneously and aligns with regulatory expectations of a central counterparty that meets Cover 2 requirements.

## Consultation feedback and ASX responses

### Mandatory participation of OTC Participants in fire drills

One respondent recommended that all OTC Participants should continue to participate in fire drills on a mandatory basis, irrespective of their membership of the DMG. It was suggested that this would ensure that each OTC Participant had an equal level of understanding and knowledge of the auction process, its mechanics and the expectation of DMG members in the event they are required to assist ASX in an actual default.

ASX supports this proposal, however, it is not necessary for ASX to make any substantive amendments to the OTC Rules or Handbook to achieve this outcome. The way ASX intends to administer the DMG framework and ASX's expectations of DMG Members, non-DMG Members and OTC Participants in an actual default, fire drill and other (regular) DMG meetings are set out in Appendix A.

### Composition of the DMG

One respondent recommended that ASX consider making it a requirement that the DMG comprise representatives from both the international and domestic banks. It was suggested that ASX would benefit from the diverse mix and experience of OTC Participants and this proposal would ensure consistent diversity in the composition of the DMG.

ASX considers that this proposal makes the composition of the DMG unnecessarily complex. ASX intends to rely on an engaged mix of representatives from OTC Participants that volunteer to participate, while ensuring an equal opportunity to participate in DMG processes.

### Regular DMG Meetings

One respondent requested that ASX clarify the proposed frequency of 'regular' DMG meetings.

To date these meetings have been held as required, in connection with fire drill preparation and execution. ASX plans to schedule one additional 'regular' meeting in the next DMG Term, bringing the total number of 'regular' meetings to three.



## Further amendments

In addition to the amendments proposed in the Consultation Paper, ASX intends to make the following amendments:

- Correct a reference to Futures Rules 7.6 in Schedule 1 (OTC Rules, Schedule 1 (Relationship with Futures Rules)).
- Increase the minimum number of DMG Members from five to six members and provide ASX with discretion to increase (but not decrease) this minimum number (OTC Handbook, Schedule 3 (Default Management Group Procedures) – Paragraph 2.1).
- Reduce the notice period for ASX to invite OTC Participants to participate in the DMG from three months to two months prior to the commencement of the DMG Term. OTC Participants will have one month to accept (OTC Handbook, Schedule 3 (Default Management Group Procedures) – Paragraphs 4.1A and 5.1).
- Clarify the scope of ‘regular’ DMG meetings by specifically including a reference to meetings held to prepare for or execute fire drills (OTC Handbook, Schedule 3 (Default Management Group Procedures) – Paragraph 9.2).
- Amend the Form of Specific Terms for DM Auctions to make it clear that in a default auction answers to questions of general relevance received by ASX during the Auction Phase will be disseminated to all DM Auction Invitees on an anonymised basis (OTC Handbook, Schedule 4 (Default Management Auction Procedures), Annex).

## Next Steps

Subject to regulatory clearance, ASX intends to implement the proposed amendments to the OTC Rules and Handbook at the end of Q2 2017 so that the framework is in place for the new DMG Term commencing 1 July 2017. A copy of the amendments can be found [here](#).

ASX will shortly invite all OTC Participants to nominate representatives for the new DMG Term.

## Appendix A: ASX OTC Default Management – ASX Expectations

	DMG Meeting	DMG members	Non-DMG members	All OTC Participants
	<b>Actual Default</b>		Attend and observe/advise if <b>requested by ASX (no voting right)</b>  (refer HB Sch 3 (DMG Procedures) Para 10.3)	<ul style="list-style-type: none"> <li>Act as potential hedging counterparty</li> <li>Comply with mandatory bidding obligation (where applicable)</li> </ul>
<b>Regular meetings</b>	<b>Fire drills (includes all meetings held to prepare for or execute the fire drill)</b>	Attend and participate in DMG  (refer HB Sch 3 (DMG Procedures) Para 10.2)	Attend and observe/advise  (refer HB Sch 3 (DMG Procedures) Para 10.3)	(refer OTC Rules Sch 3 (DMP) Para 6)
	<b>Other DMG meetings</b>		Attend and observe/advise if <b>requested by ASX (no voting right)</b>  (refer HB Sch 3 (DMG Procedures) Para 10.3)	N/A