

ASX OTC Interest Rate Derivatives Clearing

Consultation on amendments to the ASX Clear (Futures)
Operating Rules and Procedures related to clearing of NZD
OTC Interest Rate Derivatives

CONSULTATION PAPER

SEPTEMBER 2017



Invitation to comment

ASX is seeking submissions on the matters canvassed in this paper by Friday, 13 October 2017. Submissions should be sent to:

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Attention: Catherine Eakin

ASX prefers to receive submissions in electronic form. Submissions not marked as 'confidential' will be made publicly available on ASX's website.

If you would like your submission, or any part of it, to be treated as 'confidential', please indicate this clearly in your submission. ASX is available to meet with interested parties for bilateral discussions on this Consultation Paper.

Contacts

For general enquiries, please contact:

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Introduction

ASX Clear (Futures) Pty Limited (“ASX”) proposes to commence clearing NZD OTC Interest Rate Derivatives through ASX’s OTC Clearing Service in the fourth quarter of 2017, subject to regulatory clearance.

ASX’s proposed amendments to the ASX Clear (Futures) Operating Rules and Procedures to support this expanded clearing service are outlined in this Consultation Paper and available [here](#).

OTC Participant responses to this Consultation Paper should be submitted to ASX by Friday 13 October 2017.

Amendments to ASX Clear (Futures) Operating Rules and Procedures

Expansion of OTC Product coverage to include NZD OTC Interest Rate Derivatives

In Q4 2017, ASX intends to expand the product coverage of the OTC Clearing Service to include:

- NZD Interest Rate Swaps (BKBM vs Fixed) to 15 years maximum maturity.
- NZD Overnight Index Swaps to 2 years maximum maturity.

The key features of ASX’s proposed NZD OTC Interest Rate Derivatives offering are as follows:

Risk Management	ASX will use a market-standard approach for valuation and risk management, which will include the application of OIS discounting, as agreed with OTC Participants.
Initial margin (IM)	Initial margin will be calculated and payable in AUD.
Cash flows	All cash flows (including variation margin, coupons and PAI) will be calculated and payable in NZD.
Cross-currency IM offsets	ASX intends to offer cross-currency initial margin offsets between cleared AUD OTC Interest Rate Derivatives and NZD OTC Interest Rate Derivatives from commencement of the service.
24 Hour Clearing	The ASX OTC Clearing Service is open for clearing between 12:01am Monday and 7:00am Saturday AEST
Default Management	<p><u>Hedging</u>: ASX intends to extend the instruments eligible for hedging a defaulting OTC Participant’s portfolio to include any ASX 24 Exchange Traded Derivatives. This will enable ASX to use both NZD and AUD ASX 24 Exchange Traded Derivatives to hedge the NZD portfolio of a defaulting OTC Participant.</p> <p><u>Auction</u>: No changes are required to ASX’s default management auction framework.</p> <p>In the event that a defaulting OTC Participant’s portfolio includes one or more NZD OTC Open Contracts, ASX will seek to hedge and auction these NZD OTC Open Contracts in accordance with ASX’s existing default management process. A non-defaulting OTC Participant will only be a mandatory bidder for an auction pool that</p>



	contains one or more NZD OTC Open Contracts if it has an open position (at the time of default) in NZD OTC Interest Rate Derivatives.
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The proposed eligibility criteria for NZD OTC Interest Rate Derivatives can be found [here](#).

Key Operating Rules:

OTC Handbook, Schedule 1 (Eligibility Criteria)

OTC Rules, Schedule 3 (Default Management Process), para 2

Consultation Questions:

- (1) Do you support ASX expanding the product coverage of its OTC Clearing Service to cover the NZD OTC Interest Rate Derivatives products outlined above?
- (2) Do you have any comments on ASX's proposed OTC Eligibility Criteria for NZD OTC Interest Rate Derivatives?
- (3) Are there any technical, operational, legal, regulatory or other preconditions or dependencies to OTC Participants clearing NZD OTC Interest Rate Derivatives?

Access models for New Zealand domiciled institutions

Interested New Zealand institutions may choose to clear OTC Interest Rate Derivatives through ASX using the different access models outlined below.

1. New Zealand institutions may join directly as OTC Participants

A New Zealand entity that satisfies the admission criteria to become an OTC Participant (including that it is regulated by the Reserve Bank of New Zealand, maintains NTA of at least AUD 50M and satisfies ASX that it is able to participate in the default management process) may be admitted as an OTC Participant.

2. New Zealand institutions may clear as 'OTC Affiliates' of existing OTC Participants directly into the House Account

ASX may approve a New Zealand entity that is a related body corporate of an existing OTC Participant as an 'OTC Affiliate' with authority to submit OTC Transactions directly to ASX for clearing into the OTC Participant's House Account.

3. New Zealand institutions may clear as clients of OTC Participants

A New Zealand entity that meets the NZ statutory criteria for 'wholesale investors' may choose to clear OTC Interest Rate Derivatives as a client of an OTC Participant, provided that the OTC Participant is licensed to provide client clearing services (including holding any applicable licence in New Zealand) or is exempt from licensing.



To support its client clearing service for OTC Interest Rate Derivatives and ASX 24 Exchange Traded Derivatives, ASX has established an agency-style clearing model known as the 'Client Protection Model'. Detail about ASX's Client Protection Model is available [here](#). Detail about ASX's client account options is available [here](#).

Key Operating Rules:

OTC Rules, 2.3 (Conditions to become an OTC Participant)

OTC Handbook, 2.15 (Client Sub-Accounts)

Consultation Questions:

- (1) Are there any technical, operational, legal, regulatory or other preconditions or dependencies to NZ banks joining directly as OTC Participants, OTC Affiliates (where applicable) or as clients?

Miscellaneous amendments

ASX also proposes to make the following miscellaneous amendments:

1. Amendments to Futures Rule 13 (Access to Records) to ensure that ASX is authorised to provide information relating to its OTC Clearing Service to foreign regulators (including New Zealand regulators). This amendment is consistent with ASX's existing powers with respect to disclosure of information under Futures Rule 3.4.1.

Next Steps

ASX seeks OTC Participants' views on the draft amendments to the ASX Clear (Futures) Operating Rules and Procedures. Submissions should be made by Friday 13 October 2017.

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

