



# ASX OTC Interest Rate Derivatives Clearing

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

November 2017



## Contacts

For enquiries on the  
Consultation Response, please  
contact:

### **Catherine Eakin**

Senior Manager & Senior Legal  
Counsel

T 02 9227 0472

E [catherine.eakin@asx.com.au](mailto:catherine.eakin@asx.com.au)

For general enquiries, please  
contact

### **Allan McGregor**

Senior Manager, Business  
Management & Strategy

T 02 9227 0814

E [allan.mcgregor@asx.com.au](mailto:allan.mcgregor@asx.com.au)

# Contents

<a href="#">Introduction</a>	3
<a href="#">Amendments to the ASX Clear (Futures) Operating Rules and Procedures</a>	3
Expansion of OTC Product coverage to include NZD OTC Interest Rate Derivatives .....	3
Payment of OTC Daily Variation Margin .....	3
<a href="#">Next Steps</a>	3

## Introduction

On 11 September 2017, ASX released a [Consultation Paper](#) seeking comment from OTC Participants on proposed amendments to the ASX Clear (Futures) Operating Rules to support the clearing of NZD OTC Interest Rate Derivatives through ASX's OTC Clearing Service in the fourth quarter of 2017.

ASX received no submissions from OTC Participants in response to the Consultation Paper.

ASX proposes to make the rule and procedure amendments set out in the Consultation Paper together with the additional amendments outlined below. A copy of the consolidated rule and procedure amendments is available [here](#).

## Amendments to the ASX Clear (Futures) Operating Rules and Procedures

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

ASX intends to launch NZD OTC Clearing Products with a maximum maturity of two (2) years for both BKBM IRS and NZ OIS products in late November 2017, and expects to extend the maximum maturity to 15 years for BKBM IRS products during Q1 2018, with a market standard OIS discounting approach for BKBM IRS Swaps.

The second release extending BKBM IRS eligibility to 15 years will include additional technical requirements that will enable ASX to robustly capture NZ OIS curve data inputs all the way to 15 years to support NZ OIS discounting on BKBM Swaps in accordance with market practice.

The eligibility criteria for NZD OTC Interest Rate Derivatives that will apply on launch are set out in OTC Handbook, Schedule 1 (Eligibility Criteria).

### Payment of OTC Daily Variation Margin

To support the clearing of NZD OTC Interest Rate Derivatives Clearing, ASX will make NZD-denominated payments of OTC Daily Variation Margin (and Price Alignment Interest) to OTC Participants through bank accounts in New Zealand. ASX proposes to amend the OTC Handbook to reflect this operational change (refer to OTC Handbook 5.8).

In order to address ASX's interest withholding tax obligations with respect to NZD-denominated OTC Daily Variation Margin Payments (and Price Alignment Interest) ASX intends to amend the existing representations given by OTC Participants in the OTC Handbook concerning receipt of these payments (refer to OTC Handbook 5.8). Under the amendments, an OTC Participant will represent and warrant that:

1. Payments received by the OTC Participant in connection with OTC Daily Variation Margin Payments (and Price Alignment Interest) will be connected with its permanent establishment in Australia; and
2. Each payment received by an intermediary on behalf of the OTC Participant (for example, a related or unrelated clearing bank) in connection with OTC Daily Variation Margin (including any Price Alignment Interest) will be credited to an account of the OTC Participant.

An OTC Participant that fails to notify ASX Clear (Futures) in writing that the OTC Participant cannot make these representations may trigger the indemnity in Futures Rule 4.15A (refer to OTC Handbook 5.8 and Futures Rule 4.15A).

## Next Steps

Subject to regulatory clearance, ASX intends to implement the proposed amendments to the Futures Rules, OTC Rules and OTC Handbook relating to the clearing of NZD OTC Interest Rate Derivatives with effect in late November 2017. A copy of the final and consolidated amendments are set out [here](#).