

# ASX OTC Interest Rate Derivatives Clearing

Response to Consultation on OTC Rule and Handbook  
amendments related to Client Clearing API and  
Multilateral Compression Service

CONSULTATION RESPONSE

MAY 2017



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## Consultation Process

On 31 March 2017, ASX released a [Consultation Paper](#) seeking comment from OTC Participants in relation to ASX's proposal to introduce a best practice OTC client clearing workflow for trade submission (**Client Clearing API**) and a multilateral compression service (**Multilateral Compression Service**).

ASX received one formal submission in response to the Consultation Paper, which was confidential. The submission addressed ASX's proposed Client Clearing API. No submissions were received on the Multilateral Compression Service.

## Client Clearing API: Consultation feedback and ASX responses

### Timeframe for 'request for consent' process

The respondent suggested that 10 seconds was too short a timeframe within which to require an OTC Participant or a credit hub to respond to a 'request for consent'. Although the proposed 10 second cut off aligned with U.S. Commodity Futures Trading Commission (CFTC) Rules and Guidance, the respondent noted that it could be overly restrictive and might not be a prudent time limit while OTC Participants transitioned to full integration with ASX client clearing infrastructure. The respondent recommended that ASX require consent to be provided 'as soon as technologically practicable'.

ASX supports the proposal that consent be provided by an OTC Participant or credit hub to ASX 'as soon as technologically practicable'. However, to give ASX, OTC Participants and their clients' greater clearing certainty, ASX also proposes to include a hard cut-off of 10 minutes.

### Extension of Client Clearing API to OTC Transactions cleared into the House Account

The respondent recommended that ASX consider applying the 'credit token' and 'request for consent' processes to all OTC Transactions, whether cleared into a Client or House Account. The respondent suggested that consistent and robust processes would facilitate the application and monitoring of risk-based limits for OTC Participants' House Accounts.

ASX does not propose to extend the 'credit token' and 'request for consent' process to the House Account as part of this rules package.

However, ASX recognises that there may be regulatory, business or operational requirements that apply to OTC Transactions of OTC Affiliates that are cleared into an OTC Participant's House Account. Accordingly, ASX proposes to work with OTC Participants to support, on an optional basis, the extension of the 'credit token' and 'request for consent' processes to OTC Transactions of OTC Affiliates. ASX expects to make this consent workflow (supported by further changes to the OTC Handbook) available to interested OTC Participants in H2 2017.

### Inclusion of defined terms

In response to regulatory feedback, ASX proposes to introduce a number of defined terms including 'Credit Token', 'Request for Consent' and 'Consent Message'. Adopting these definitions will enable ASX to simplify the OTC Handbook.

## Multilateral Compression Service

ASX received no feedback from OTC Participants on the Multilateral Compression Service. ASX will continue to work with regulators to finalise the rules framework for this service. ASX will notify OTC Participants of the final rules framework ahead of the service launch.



## Next Steps

Subject to regulatory clearance, ASX intends to implement the proposed amendments to the OTC Rules and Handbook relating to the Client Clearing API with effect on 29 May 2017. A copy of the final amendments are set out in Annexure A.

## ASX OTC Rulebook

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### 4 REGISTRATION

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#### 4.3 Submission of OTC Transactions

An OTC Transaction to be submitted for registration must be presented to ASX Clear (Futures) in accordance with the OTC Handbook.

OTC Transactions must be submitted for registration using an Approved Trade Source System (as described in the OTC Handbook).

OTC Transactions submitted through an Approved Trade Source System must be in an acceptable message format, as prescribed by ASX Clear (Futures) from time to time.

ASX Clear (Futures) will satisfy itself that a trade source system is suitable as an Approved Trade Source System for ASX Clear (Futures) before approving it as an Approved Trade Source System.

The OTC Participants nominated as Fixed Rate Payer and Floating Rate Payer in details submitted by an Approved Trade Source System in connection with delivery under a Deliverable Swap Futures Contract are taken for the purposes of these OTC Rules and the OTC Handbook to have entered into an OTC Transaction having terms corresponding to the terms of the contract to be delivered.

An OTC Affiliate or CPM Client may submit an OTC Transaction to ASX Clear (Futures) ~~for registration for approval by the OTC Affiliate or CPM Client's relevant OTC Participant~~ in accordance with the above paragraphs of this OTC Rule 4.3. However, an OTC Transaction submitted to ASX Clear (Futures) by an OTC Affiliate or CPM Client may only be registered by ASX Clear (Futures) if the OTC Participant of the OTC Affiliate or CPM Client has consented to the registration of the OTC Transaction in accordance with the OTC Handbook. ~~aAn OTC Participant may notify ASX Clear (Futures) of limitations on the types of OTC Transactions which may be submitted for registration on behalf of an OTC Affiliate or CPM Client.~~

Once consent has been obtained, or is taken to have been obtained (in accordance with the OTC Handbook), from the OTC Participants in whose Clearing Account the OTC Open Contracts would be created by the registration of that OTC Transaction, then the OTC Transaction is taken to have been submitted by the OTC Participant to ASX Clear (Futures) for registration and, for the purposes of these OTC Rules, the OTC Handbook and the Futures Rules, the OTC Participant is taken to be a party to the OTC Transaction.

ASX Clear (Futures) makes no warranty (and accepts no liability) as to the effectiveness or performance or any other aspect or matter in connection with an Approved Trade Source System or a credit hub (as described in the OTC Handbook). ASX Clear (Futures) is not liable or responsible for any corruption or alteration of messages or loss of data which may take place within any Approved Trade Source System or a credit hub.

*[Purpose of Amendment: The amendments provide a basis for the introduction of an automated trade submission process for OTC CPM Clients that will enable pre-clearing credit limit checks by means of a Credit Token Issuer and request for consent workflows initiated by ASX.]*

Amended 11/02/14, 30/11/15, 15/08/16

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# ASX OTC HANDBOOK

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## 1.4 Approved Trade Source Systems

The following are **Approved Trade Source Systems**:

- MarkitWire

If ASX Clear (Futures) approves additional Approved Trade Source Systems, it will notify OTC Participants.

~~ASX Clear (Futures) is not liable or responsible for any corruption or alteration of messages or loss of data which may take place within any Approved Trade Source System.~~

~~ASX Clear (Futures) makes no warranty (and accepts no liability) as to the effectiveness or performance or any other aspect or matter in connection with an Approved Trade Source System.~~

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## 2.15 Client Sub-Accounts

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ASX Clear (Futures) will only approve a CPM Client where it has the following data:

- Client Name
- Client LEI (or other identifier)
- Client Address
- Segregation Code (Omnibus or ICA)

~~(e) Restrictions on Trading~~

(ef) Swapswire Participant ID

(f) Consent Provider (mandatory)

(g) Credit Token Issuer (optional)

(Explanatory Note: The data in paragraphs (f) and (g) is required to facilitate the submission of OTC Transactions by CPM Clients. Refer to OTC Handbook 4.3(A) CPM Client procedures for submission.)

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## 4 REGISTRATION

### 4.3 Submission of OTC Transactions

*Limitations on swap clearing services for US Persons and FCMs*

The submission for registration of OTC Transactions for US Persons and FCMs (each as defined below) is limited by and subject to the following conditions:

- (a) An OTC Participant that is a US Person may only submit an OTC Transaction for registration under OTC Rule 4.3 for itself or those US Persons identified in the Proprietary Account Definition.
- (b) An OTC Participant that is not a US Person may submit an OTC Transaction for registration under OTC Rule 4.3 for a US Person only if that US Person is affiliated and is identified in the Proprietary Account Definition.
- (c) An entity that is registered with CFTC as a FCM and either is an OTC Participant or has an affiliate that is an OTC Participant may only submit (either directly, as OTC Participant, or via its affiliated OTC Participant, respectively) an OTC Transaction for registration under OTC Rule 4.3 for itself or those US Persons identified in the Proprietary Account Definition.

Definitions:

“**CFTC**” means the US Commodity Futures Trading Commission.

“**FCM**” means a ‘Futures Commission Merchant’ as that term is defined in the rules and regulations of CFTC, as amended from time to time.

“**Order of Exemption**” means the order of exemption from registration as a Derivatives Clearing Organization issued by CFTC to ASX Clear (Futures) and dated 18 August 2015, as amended from time to time.

“**Proprietary Account Definition**” means the definition of ‘proprietary account’ set forth in US Code of Federal Regulations, Title 17, Regulation 1.3(y), as amended from time to time.

“**US Person**” has the meaning given to it in rules and regulations, or interpretive guidance, with a scope encompassing the Order of Exemption, as made or adopted by CFTC from time to time. At 25 September 2015 the applicable interpretive guidance is CFTC’s *Interpretive Guidance and Policy Statement Regarding Compliance with Certain Swap Regulations*, 78 Fed. Reg. 45,292, 45,316-17 dated 26 July 2013.

**Explanatory Notes:**

- (1) These limitations are included in the OTC Handbook to meet CFTC requirements in connection with the exemption of ASX Clear (Futures) from registration as a Derivatives Clearing Organisation as defined in the Commodity Exchange Act of the United States.
- (2) Paragraphs (a) and (c) do not prevent an OTC Participant or FCM that is a US Person from submitting an OTC Transaction for registration under OTC Rule 4.3 for a non-US Person, regardless of whether that non-US Person is affiliated or not.

~~General~~ Procedures for submission

~~The Approved Trade Source System will send details of the OTC Transaction to ASX Clear (Futures) once it has been bilaterally agreed.~~

(A) CPM Client procedures for submission

For the purposes of OTC Rule 4.3, a CPM Client’s OTC Participant will be taken to have consented to the registration of an OTC Transaction submitted by the CPM Client to ASX Clear (Futures) if:

- (a) the transaction details of the OTC Transaction submitted to ASX Clear (Futures) include a Credit Token; or
- (b) the CPM Client’s Consent Provider returns a Consent Message as soon as technologically practicable, but in any event within 10 minutes of receiving a Request for Consent.



Consent is irrevocable once given, or taken to have been given, by an OTC Participant. ASX Clear (Futures) is entitled to rely upon a Credit Token or Consent Message without making any verification or investigation.

An OTC Transaction submitted by a CPM Client to ASX Clear (Futures) in respect of which consent is not given, or taken to be given, in accordance with paragraph (a) or (b) above will be rejected by ASX Clear (Futures).

Definitions:

“Consent Message” means, in respect of an OTC Transaction submitted by a CPM Client to ASX Clear (Futures) for registration, a message from the CPM Client’s Consent Provider to ASX Clear (Futures) in a form acceptable to ASX Clear (Futures) consenting to the registration of the OTC Transaction.

“Credit Token” means, in respect of an OTC Transaction submitted by a CPM Client to ASX Clear (Futures) for registration, a communication or record of a communication by the CPM Client’s Credit Token Issuer which is included in the transaction details submitted to ASX Clear (Futures) in a form acceptable to ASX Clear (Futures) to signify that the OTC Transaction is within credit limits for the CPM Client set by its OTC Participant.

“Credit Token Issuer” means, in respect of a CPM Client, the entity authorised to issue Credit Tokens in respect of OTC Transactions executed by or on behalf of the CPM Client. This entity may be the CPM Client’s OTC Participant or a credit hub nominated by the CPM Client’s OTC Participant, in either case as prior notified to ASX Clear (Futures) in accordance with OTC Handbook 2.15.

“Request for Consent” means, in respect of an OTC Transaction submitted by a CPM Client to ASX Clear (Futures) for registration, a message from ASX Clear (Futures) to the CPM Client’s Consent Provider seeking consent to the registration of the OTC Transaction.

“Consent Provider” means, in respect of a CPM Client, the entity authorised to issue Consent Messages in respect of OTC Transactions executed by or on behalf of the CPM Client. This entity may be the CPM Client’s OTC Participant or a credit hub nominated by the CPM Client’s OTC Participant, in either case as prior notified to ASX Clear (Futures) in accordance with OTC Handbook 2.15.

(B) OTC Affiliate procedures for submission

For the purposes of OTC Rule 4.3, an OTC Participant will be taken to have ~~Consented~~ to the registration of an OTC Transaction submitted to ASX Clear (Futures) by an OTC Affiliate ~~-is taken to have been obtained from the OTC Participants with whom the OTC Open Contracts would be created-~~ when the ~~relevant~~ OTC Transaction is reported to ASX Clear (Futures) by an Approved Trade Source System.

—General procedures for submission

(C)

The Approved Trade Source System will send details of the OTC Transaction to ASX Clear (Futures) once it has been executed on a trading venue or bilaterally agreed.

ASX Clear (Futures) may only register an OTC Transaction to which one or more CPM Clients or OTC Affiliates are parties if consent is obtained, or is taken to have been obtained, from the relevant OTC Participants.

ASX Clear (Futures) will process any ~~such reported~~ OTC Transaction [reported to ASX Clear \(Futures\) by an Approved Trade Source System](#) without making any verification or investigation. ~~and, s~~ Subject to the OTC Rules and the OTC Handbook, [ASX Clear \(Futures\)](#) will register the OTC Transaction on the basis of the data provided to it by the Approved Trade Source System.

Upon an OTC Transaction being submitted to ASX Clear (Futures) for registration and the satisfaction of the conditions to registration set out in the OTC Rules, ASX Clear (Futures) will respond, after processing, with a message confirming the registration.

OTC Transactions submitted for registration that do not meet the product or other eligibility criteria prescribed from time to time by ASX Clear (Futures) or which contain invalid or incomplete message data will be rejected. If, at any time, ASX Clear (Futures) does not register a trade presented for registration it will send to the originating Approved Trade Source System notification of the rejection.

Submission for registration of OTC Transactions can only occur at the times and days set out in Paragraph 1.6 above.

Amended 25/09/15