

# ASX Collateral Bulletin



August 2017

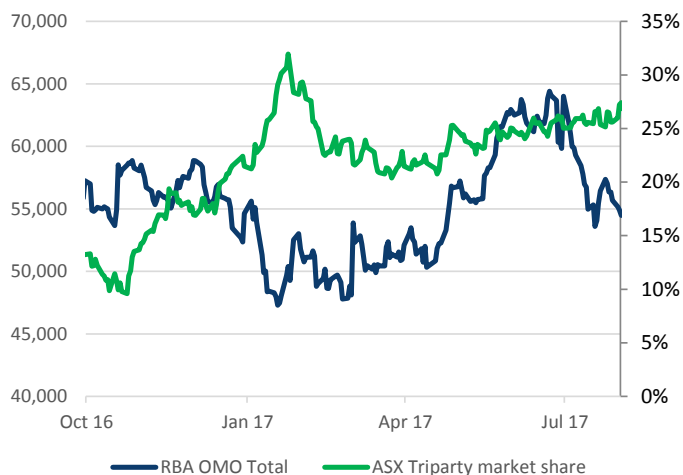
ASX Collateral is the only live, fixed income, tri-party repo securities lending and collateral management service provider in Australia that mobilises collateral directly within the CSD. The service can collateralise exposures across a range of A\$ products, including:

- Repurchase agreements: intra-day, overnight and term
- Securities lending and borrowing
- Cleared ETD and OTC derivatives and non-cleared OTC derivatives
- Central Counterparty (CCP) margining

Collateral Under Management: Daily Balance



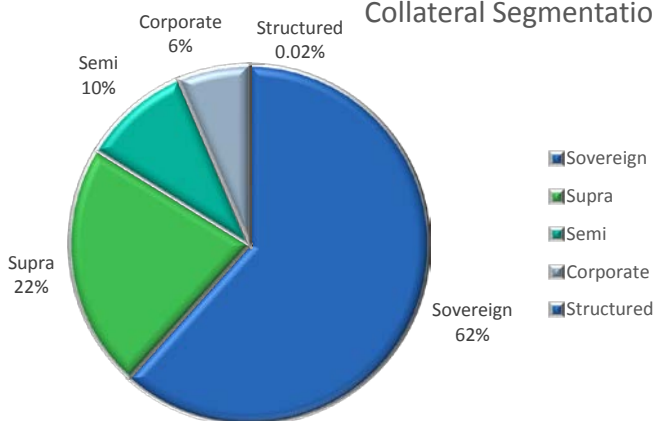
RBA OMO (Open Market Operations)



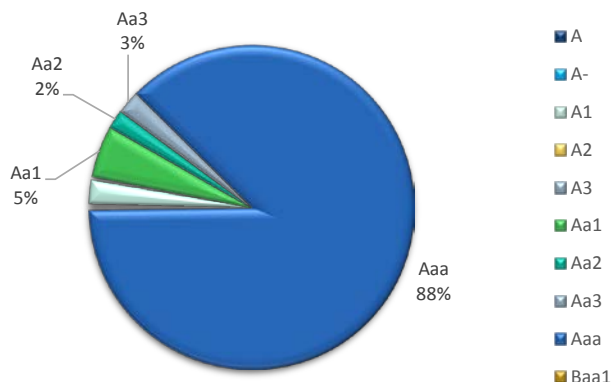
ASX Collateral growth: 197% YoY growth in balance of Collateral under management, with \$16.5bn high reached in June 2017

On average, 25% of the RBA daily OMO has settled via triparty over the last three months, and a high of 32% in 2017.

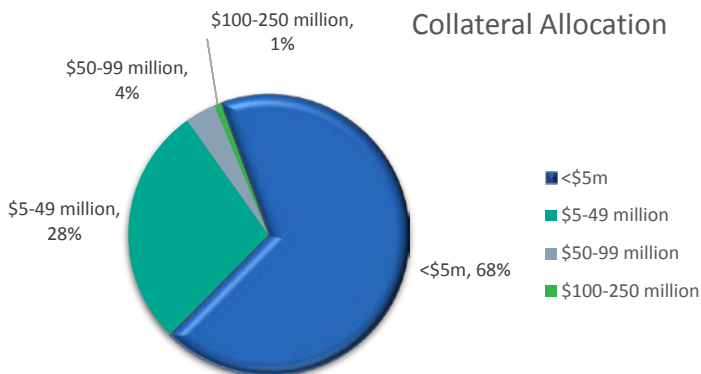
Collateral Segmentation



Collateral Ratings



Collateral Allocation



Collateral Segmentation:  
 ➢ 62% Govts, 10% Semis and 22% Supras

Collateral Ratings:  
 ➢ 88% Aaa

Collateral Allocation:  
 ➢ 68% of collateral allocated is in <\$5million parcel  
 ➢ efficient management of substitutions and funding of 'scraps' or small positions



## ASX Collateral Management Series - first event: Tuesday 12th September

ASX will be hosting a series of events focused on Collateral Management.

The panellists at the first forum on 12th September shall discuss trends and developments in the **Repo** and **Securities Lending** markets, domestic and global, including how global regulation is resulting in:

- new trade structures
- additional pricing considerations, and
- the requirement for additional efficiencies in collateral management.

Subsequent events shall focus on Initial Margin and Corporate involvement in the Repo market.

## Triparty Securities Lending Service (TSLs)

The Triparty Securities Lending Service that is now live enables Austraclear securities to be settled DvD (Delivery versus Delivery) against a basket of collateral, such as under a **Collateral Transformation** trade structure - HQLA bond borrowed against a Basket of Corporate Bond collateral or borrowing a special against a GC basket.

- **Balance Sheet Netting:** matched DvD settlement of a termed transaction could provide immediate balance sheet netting
- **Reduces intraday credit risk:** the linked DvD settlement under TSLs (bond borrow v collateral basket) reduces intraday credit risk that is encountered under the more traditional booking FOP borrow v FOP pledge. (FOP: Free of Payment)
- **Liquidity ratios:** there is no cash in a DvD settlement, so TSLs could have a positive effect on liquidity ratios when compared to DVP (Delivery vs Payment) settlement transactions, such as DVP borrow v DVP loan
- **Settlement efficiency:** triparty settlement offers collateral management efficiencies and responds to the need to adapt to ever increasing collateral velocity

## APRA CPS226 - Margining requirements for non-centrally cleared derivatives

- 31st August 2017 sees the end of the six-month transitional period for **variation margin** (AUD\$3bn qualifying level)
- 1st September 2017 sees **Initial margin** requirements for Phase 2 entities come into effect (AUD\$3.375tr qualifying level)

ASX Collateral offers an automated and efficient process for managing the collateral of your initial and variation margin obligations, within a segregated account structure, accounting for any eligibility and concentration criteria agreed between the trading counterparties.

<http://www.apra.gov.au/CrossIndustry/Documents/161206-Final-CPS-226-implementation-timetable.pdf>

## Secured money market transactions: trends in the Australian repo rate

Observations on scale and composition of Australian repo market, including increase in volatility and level of repo rate:

- \$120bn repo positions December 2016, turnover estimated at \$30bn/day
- Average repo trade duration: RBA at 1m in contrast to 2days for wider market
- RBA lends approximately 50% of cash to Repo dealers
- Non-residents growing participation in repo: circa 50% of Repo dealer cash lent to non-residents. Non-residents hold 60% of CGS through outright and repo holdings (CGS: Commonwealth Government Securities)
- Repo rate: effect of cross-currency basis trading and observations of term premium.

<https://australiancentre.com.au/wp-content/uploads/2017/05/D2P4-Becker-Rickards.pdf>

## Further information

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