

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



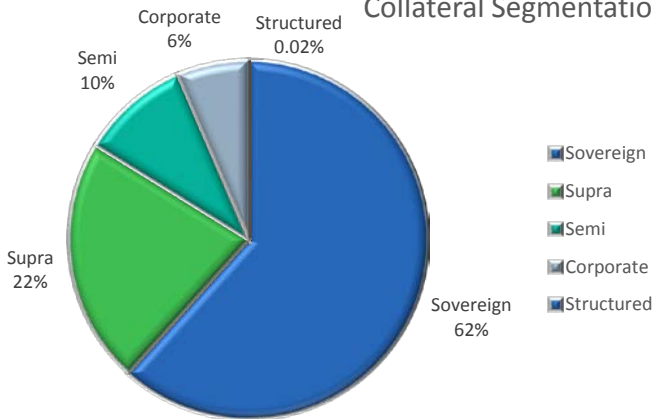
ASX Collateral growth: 197% YoY growth in balance of Collateral under management, with \$16.5bn high reached in June 2017

RBA OMO (Open Market Operations)

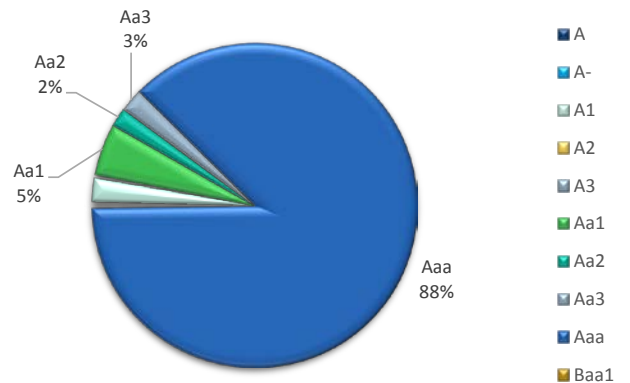


On average, 25% of the RBA daily OMO has settled via triparty over the last three months, and a high of 32% in 2017.

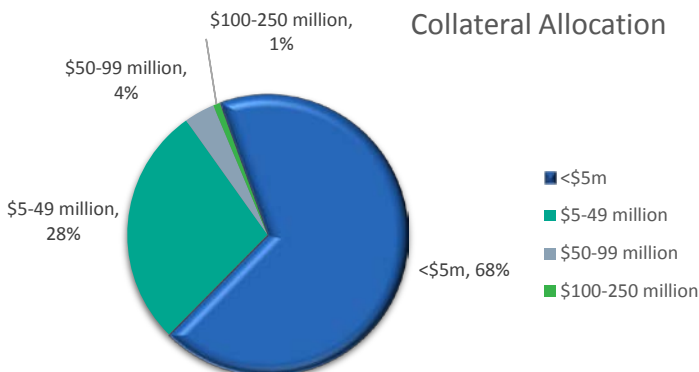
Collateral Segmentation



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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