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Public quantitative disclosure standards for central counterparties

Dear CPSS and IOSCO Secretariats,

ASX Group (ASX) would like to thank CPSS and IOSCO for the opportunity to respond to Consultative report *Public quantitative disclosure standards for central counterparties* (October 2013).

ASX recognises and supports the need for stakeholders and the public to be able to understand and compare CCP risk controls, especially in the context of assessing the risk of CCP participation. CCPs are by their nature very risk averse institutions with proven, robust risk mitigation mechanisms as highlighted by their successful handling of the periods of financial instability (including 2008-2009). While we support, in principle, CPSS-IOSCO's approach to quantitative disclosure, ASX considers that it is fundamentally important that CCPs are not required to make any prescribed disclosure wherever it could lead to the release of commercially sensitive information.

We are also concerned that the CPSS-IOSCO proposals do not appear to have an international monitoring process in place to ensure consistent implementation of quantitative disclosures across all jurisdictions. An effective monitoring process would ensure all CCPs are subject to a consistent regulatory framework. In order to establish CCP reporting consistency we believe that CPSS-IOSCO should also construct a standardised detailed template to be completed by all CCPs.

Although ASX already makes a significant amount of data contained in the Consultative report publicly available, we recognise that the CPSS-IOSCO proposals will significantly increase the amount of information CCPs must disclose. Some of the proposals will require new reporting tools to be developed and as a result CCPs will need a transitional period of at least 12 months to comply with the new requirements.

ASX believes that the proposed reporting lag of no more than one month provides CCPs with insufficient time to make the required information public, especially given the large amount of information CCPs will need to disclose. ASX is strongly of the view that CCPs will require a minimum reporting lag of at least two months in order to ensure the accuracy of the information provided.

ASX notes that the new proposals do not contain any specific reporting dates. If CPSS-IOSCO intends to set reporting dates then we believe the quarterly reporting dates should be set at 31st March, 30th June, 30th September and 31st December in order to streamline CCP reporting processes.

ASX has provided general comments on the CPSS-IOSCO proposals in the following section of this submission. Attachment A includes ASX's response to the CPSS-IOSCO's 'Requests for comments on the report' and Attachment B includes responses to the detailed consultation questions.

ASX would welcome the opportunity to work closely with CPSS-IOSCO to finalise these requirements.

General comments on the CPSS-IOSCO proposal

Credit risk (Principle 4)

ASX considers that the proposed disclosure under 4.2 will require significant CCP effort to complete. As a result we believe CCPs should only be required to provide this information on an annual basis in order to achieve an appropriate balance between the need for public disclosure and burdensome CCP reporting obligations.

Settlement finality (Principle 8)

ASX would appreciate if CPSS-IOSCO could clarify if the proposed data requirement relates to the number of failed settlement instructions or the number of failed units. It is also unclear if CPSS-IOSCO would like CCPs to disclose a single average percentage for the quarter for each measure (number and value) or a time series of the daily percentage change.

Money settlements (Principle 9)

In relation to the average daily value of cash payment instructions, greater detail is needed on how the data is to be aggregated to account for payments and receipts. It is also unclear if CCPs are required to provide a time series of daily averages or a single average over the whole quarter (per currency and settlement money type).

ASX would also appreciate if CPSS-IOSCO could clarify the following issues:

- Should CCPs include the money leg of all Delivery vs Payment (DvP) transactions or just cash trades?¹
- Is CPSS-IOSCO seeking data on the largest aggregate (gross) money flow on a day in the quarter (i.e. a single number) or a time series of the largest individual money flow (pay or receive) each day in the quarter?
- Should participant and affiliate settlements be netted or gross?
- Should CCPs limit this data to the novated settlements of affiliates?

Physical deliveries (Principle 10)

It is unclear if the proposed 10.1 requirement refers to the actual deliveries made or the daily trading volume and notional value of derivative contracts and cash market transactions that will involve the delivery of physical assets on expiry, if exercised or when settled. If CPSS-IOSCO would like CCPs to provide the former then ASX would appreciate if CPSS-IOSCO could clarify the following:

- Is "volume" the number of settlement instructions or the number of units / underlying assets (e.g. tonnes for commodities)?
- Is the requirement limited to deliveries associated with derivative contracts or does it include deliveries resulting from cash market transactions?
- Are non-expiry / exercise days excluded when calculating the average?
- How is the tonnage of physical commodities moved² in and out of the CCP's holding in a bulk warehouse to be valued?

¹ We have assumed that CPSS-IOSCO would like CCPs to only provide the largest aggregate (gross) money flow on a day in the quarter. If this is not the case then further clarification will be required.

ASX also believes further clarity is required on the proposed 10.2, 10.4 and 10.5 requirements. For example, it is unclear if value and volume are independent (e.g. the peak under each metric could occur on different days) that is, CCPs should report the value associated with the largest volume day or the volume associated with the largest value day. ASX believes that CPSS-IOSCO should also provide more guidance on the definition of 'peak'. For example, it is unclear if peak refers to the largest aggregate (gross) volume and notional value on a day in the quarter (i.e. CCPs will need to provide just two data points) or the time series of the largest volume and value attributable to a particular commodity or security.

Under the 10.3 requirements ASX believes that CPSS-IOSCO should clarify if CCPs have to provide data relating to securities scheduled for settlement or actual settlement. It is also unclear if CCPs should provide a single number or time series. If CCPs need to provide the latter CPSS-IOSCO should outline how the daily average volume of settlement instructions should be calculated.

Under the proposed 10.5 requirement ASX assumes that it will not be required to name the actual participant. In some markets participants know who the dominant firm is and this disclosure may result in the release of commercially sensitive information.

Default rules and procedures (Principle 13)

ASX is unsure what benefit this disclosure would provide to CCP stakeholders and the general public. If CCPs are required to make any disclosures they must only be required to do so once all outstanding issues and legal actions with the defaulting Clearing Member (CM) have been settled. Once this has been achieved CCPs should have a 12 month period within which to publish the required information. It is important that CCPs have this disclosure window as new legal claims could be put forward only once the default settlement is finalised.

Segregation and Portability (Principle 14)

Where clearing occurs through a client omnibus account underlying client positions cannot be identified by CCPs as they will only have access from CMs to overall net client positions and margins. ASX considers that CPSS-IOSCO should not require CCPs to provide the proposed data where they do not have access to the necessary information. In such situations ASX believes that CPSS-IOSCO should ensure that quantitative disclosures are restricted to the initial margin requirement of the total account.

General business risk (Principle 15)

ASX, like many vertically integrated exchanges, operates on a group basis and typically only discloses management expense data at the group level.³ We believe that it is appropriate for CCPs to make financial disclosures including data on operating expense requirements on an annual basis. More frequent disclosure would be unduly burdensome for CCPs, especially where they are part of an integrated exchange group. If CPSS-IOSCO feels that more frequent disclosure is required for operating expense coverage then this disclosure should be limited to a CCP attestation that sufficient liquid assets are available to meet operating expense requirements.

ASX believes that it is common practice for integrated exchanges to provide bundled fees for trading, clearing and settlement (CMs tend to typically pass on bundled fees directly to their clients). Requiring CCPs to unbundle these arrangements could impose unintended downstream changes to the fee policies of CMs. This could be disruptive to the market and may affect overall market efficiency.

² Movements are measured in tonnes and not dollars.

³ Please note that ASX currently discloses cash equities market information under the Code of Practice for Clearing and Settlement of Cash Equities in Australia.

Custody and investment risks (Principle 16)

Completing the proposed data requirement under 16.2 will be a significant undertaking for CCPs. ASX considers that it is appropriate for this information to be made public only on an annual basis. CPSS-IOSCO should also adopt the maturity categories used under international accounting standards in order to streamline CCP reporting obligations.

Access and participation requirements (Principle 18)

CPSS and IOSCO should provide further clarity on the definition of product, service and average used in this Principle.

FMI Links (Principle 20)

ASX would appreciate if CPSS-IOSCO could clarify whether the FMI link requirements apply only to interoperability arrangements or more broadly to all clearing links. If the intention is for these disclosures to apply to clearing links then CCPs should have greater flexibility when reporting against this disclosure. Clearing links tend to be bespoke agreements (e.g. some clearing links may not involve the transfer of initial margin) and as a result quantitative disclosure requirements, if required, need to cater for a wide variety of clearing link arrangements.

Disclosure of rules, key procedures and market data (Principle 23)

Please see the second paragraph under General business risk.

ASX would like to thank CPSS and IOSCO for the opportunity to comment on the proposed quantitative disclosure requirements. We would be happy to discuss any of these issues with CPSS or IOSCO staff. If you have any comments or questions, please contact Joshua Everson at joshua.everson@asx.com.au or phone: +612 9227 0233.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Alan Bardwell', with a stylized, flowing script.

Alan Bardwell
Chief Risk Officer

Attachment A – Requests for comments on the report

Are there additional quantitative data that are not included but are, in the respondent's view, necessary to allow risks associated with CCPs and the systemic importance of CCPs to be understood, assessed and compared? If so, what additional data should be disclosed, and why?

ASX is not aware of any additional quantitative data which should be disclosed.

Are there alternative quantitative or qualitative data, or more effective ways of presenting these or alternative data, that would better meet the objectives of fully, clearly and accurately understanding CCP risks and systemic importance, and comparing CCP risk controls, financial condition and resources to withstand potential losses, given the different markets and products cleared by CCPs, and differences in their structure? Are there data items included that are not, in the respondents' view, necessary to achieve these goals and, if so, why are these not necessary?

Please see ASX's General comments on the CPSS-IOSCO proposals.

Would any of this data be materially commercially prejudicial to CCP participants, linked FMI's or other relevant stakeholders and why is this the case?

Where there is a relatively high degree of concentration in particular product or investment market CCPs should not be required to disclose information that could lead to the identification of commercially sensitive information.

Would disclosure of any of this data result in material additional burden to the CCP, and why (for example, because the data are not routinely available to the CCP in the normal course of its business and risk management)? If so, what analogous information could be disclosed in a meaningful way that would achieve similar goals while minimising this burden?

Please see ASX's General comments on the CPSS-IOSCO proposal.

Would disclosure of any of this data be inconsistent with local law or any legal or regulatory limitations on public disclosure? If so, what analogous information could be disclosed in a meaningful way that would achieve similar goals while avoiding such inconsistency?

ASX considers that CCPs should not be required to disclose any information which could possibly reveal CM or client positions.

Do the suggested frequencies for disclosing data strike an appropriate balance between up to date information and reporting burden? What is an appropriate reporting lag?

In the previous section ASX has identified areas where we believe the proposed reporting obligations do not strike the right balance (e.g. reporting requirements 4.2 and 16.2). The allowable reporting lag should be at least two months.

(For CCP respondents) which of these data elements do you already publicly disclose? To what extent is that data maintained consistent with the quality controls called for in the template?

ASX currently discloses a significant amount of high quality information which could be categorised under most of the reporting categories. The areas where ASX does not already have extensive disclosure would include FMI links (ASX CCPs do not have any links with external FMIs) and Tiered participation requirements.

What is the appropriate structure for presenting the quantitative disclosures so that comparability is facilitated? Once reporting has begun, should previous reports remain available to allow trends over time to be examined?

CPSS and IOSCO should provide CCPs with a detailed template for quantitative data disclosure. CCPs should have the discretion to determine if previous reports remain available to the public.

Attachment B - Detailed Consultation questions

4.3 How could this information best be presented to provide meaningful information across CCPs while avoiding disproportionate reporting burden (eg what is the case for disclosing further information on stress testing methods)?

ASX believes the proposed disclosure will provide the public with a considerable amount of data and as a result we do not believe that CCPs should be required to disclose further information.

4.3 What are the pros and cons of seeking disclosures with regard to the estimated largest credit exposures to both the single largest and two largest participants (plus affiliates), from all CCPs irrespective of whether they are subject to a cover 1 or a cover 2 regulatory requirement?

We consider that requiring CCPs to provide information outside of their current coverage test will impose a significant reporting burden on CCPs without any substantive public benefit.

5.1 How frequently are haircuts changed?

ASX CCPs change the applicable haircuts on an adhoc basis as they are deemed appropriate.

5.2 How frequently are haircuts changed?

Please see above.

5.3 How could this information best be presented to provide meaningful information across CCPs while avoiding disproportionate reporting burden?

ASX does not have a preferred view on this disclosure.

6.1 Would it be preferable to report more frequently, eg monthly, or to report daily data over the period, the average over the period, highest and/or lowest values over the period, or data as at the end of the quarter?

ASX considers that a quarterly reporting frequency will place a considerable reporting burden on CCPs and we do not believe that it is appropriate for the reporting frequency to be increased. Ideally the data reported should be as at the end of the quarter.

6.2 Would it be preferable to report more frequently, eg monthly, or to report daily data over the period, the average over the period, highest and/or lowest values over the period, or data as at the end of the period?

Please refer to the previous response.

6.3 – 6.4 How frequently are initial margin rates and key parameters, including correlations, changed? Is the information requested sufficient to provide a basic understanding of the initial margin model, or is more or different information necessary? (eg the weighting applied to historic data, the range of volatility shifts modelled, etc?)

Initial margin rates and key parameters are reviewed on a regular basis and are also reviewed on an adhoc basis as required. We believe the information provided is appropriate to allow the public to gain a basic understanding of the initial margin model.

6.5 How could this information best be presented to provide meaningful information across CCPs while avoiding disproportionate reporting burden? Is this information best presented at the level of clearing member accounts in each clearing service?

ASX considers that CPSS-IOSCO should provide a template which each CCP must populate in relation to back testing requirements. We believe that providing this information at the clearing service level will provide sufficient detail for the public without imposing an overbearing CCP reporting burden.

7.1 Would disclosures on composition of liquid resources reveal sensitive information about individual liquidity providers? (please say why, and how the disclosure could be amended to ensure adequate information on liquid resources is disclosed without this sensitivity?)

As long as CCPs only need to provide data relating to the aggregate composition we cannot foresee this disclosure revealing sensitive information about liquidity providers. Despite this we consider that it will be important that CCPs are not required to disclose information if they feel it could reveal sensitive information about individual liquidity providers.

7.3 How could this information best be presented to provide meaningful information across CCPs while avoiding a disproportionate reporting burden? Would reporting this data present confidentiality issues and why?

CPSS-IOSCO should devise a CCP reporting template to ensure consistent CCP disclosure under this requirement. ASX cannot foresee any confidentiality issues with providing this data although CCPs must not be compelled to disclose information if they have reason to believe that its release could reveal sensitive CM information.

10.5 Would this disclosure enable informed market participants to identify individual market participants and, if so, would that be materially commercially prejudicial to CCP participants and why?

The proposed disclosure could enable individual market participants to be identified, especially where there is a high degree of CM concentration in a product market. In such situations CCPs must have the discretion to not disclose the required information where they believe it could identify individual market participants.

13.1 Would it be useful to publish quantitative disclosures following a default, with a suitable lag? (eg amount of loss versus amount of IM; amount of other financial resources used to cover losses; proportion of client positions closed-out /ported (in aggregate such that individual clients/members cannot be identified))? How long after the default would be appropriate?

ASX is unsure what benefit this disclosure would provide to CCP stakeholders and the general public. If CCPs are required to make any disclosures they should only be required to do so once all outstanding issues and legal actions with the defaulting CM have been settled. Once this has been achieved CCPs should have 12 month period within which to publish the required information. It is important that CCPs have this disclosure period as new legal claims could be put forward only once the default settlement is finalised.

15.1 Would any CCPs have difficulty providing this data more frequently eg every six months or quarterly, and would this add significant value?

ASX considers that annual reporting of this information will provide the appropriate level of public disclosure. More frequent reporting of this data will create a disproportionate reporting obligation for CCPs.

15.2 Would any CCPs have difficulty providing more frequently eg every six months or quarterly, and would this add significant value?

ASX believes that the frequency of this disclosure should be annual. More frequent reporting of this information will create a disproportionate reporting burden on CCPs.

15.3 What information on revenue would best give an insight into risks facing the CCP, while respecting commercially sensitivity?

ASX does not believe that revenue data will provide the public with any material insights into CCP risk. Revenue data may, however, provide the public with a sense of the scale of a CCP's activity but will not enable the public to understand the applicable risk mitigation tools.

16.2 What summary statistics could be disclosed without revealing sensitive information? (eg on concentration, maturity)

ASX believes that disclosure under all the summary statistics could lead to the release of commercially sensitive information. We consider that CCPs should have the discretion to not disclose statistics where they believe that publication could reveal commercial information.

18.2-18.5 Could these metrics reveal information about individual members? If so, how should information about concentration across members be conveyed?

CCPs should not be required to provide this data where they believe disclosure may reveal information about individual members. CCPs should be required to state where data has not been provided due to concerns over commercial sensitivity.

19.1 Could these metrics reveal information about individual members? If so, how should information about concentration of client clearing be conveyed? Do CCPs have access to all the requested information?

CCPs may not have access to all the required client information in order to be able to meet this proposed disclosure requirement. For example, CCPs will be unable to provide this information where there is comingling of client positions or collateral. CCPs should not be required to publicly release concentration information where it is likely to reveal either a client or CM position.

20.4 How could this information best be presented to provide meaningful information across CCPs while avoiding a disproportionate reporting burden?

CPSS-IOSCO should release a template for CCP reporting based on the information covered under reporting requirement 20.4.

20.8 If the number of members participating in the cross-margining arrangement is fewer than 5, the CCP should consider whether 20.6-20.7 can be disclosed without revealing information about individual member positions

ASX considers that it would not be appropriate for CCPs to disclose this information where the number of CMs participating in the cross margining arrangement is less than five.

Attachment C – About ASX Group

The ASX Group is a provider of multi asset class exchange services. It operates Australia's main equities and derivatives exchange markets and the post-trade processing services in which transactions executed on Australian markets are cleared and settled.

ASX currently operates two CCPs – ASX Clear and ASX Clear (Futures). ASX Clear provides CCP services for a range of financial products traded on the Australian markets, including cash equities, pooled investment products, warrants, certain interest rate products and equity and commodity-related derivatives.

ASX Clear (Futures) provides CCP services for derivatives traded on the ASX24 market, including futures and options on interest rate, equity, energy and commodity products. ASX Clear (Futures) also clears OTC derivatives contracts and Australian Government bonds. ASX launched the OTC Interest Rate Derivatives Clearing Service on 1 July 2013 and is initially targeting dealer activity. The initial Australian dollar OTC derivatives products currently covered include Fixed vs Floating BBSW Interest Rate swaps, Overnight Index swaps and Basis swaps. ASX intends to extend this service to offer client clearing for Australian customers in Q2 2014.

ASX's CCPs are licensed entities regulated by Australia's corporate regulator and central bank. ASX CCPs must comply with the obligations arising from their clearing and settlement facility licences, granted by the Australian Government, including those arising from the Financial Stability Standard for Central Counterparties determined by Australia's central bank, the Reserve Bank of Australia (RBA). This standard was updated in December 2012 primarily to implement the new global CCP standards outlined in the CPSS-IOSCO *Principles for Financial Market Infrastructures*.

