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ASX proposes mandate for AUD-IRD central clearing at same time as G4-IRD mandate

The Treasury Proposals Paper G4-IRD central clearing mandate February 2014 (*Proposals Paper*) recommends a central clearing mandate for G4-IRD. While observing an increase in central clearing of AUD-IRD and the regulatory approval of two central clearers for AUD-IRD there is no recommendation to mandate AUD-IRD.

ASX believes that AUD-IRD should be mandated at the same time as G4-IRD. Not doing so would unnecessarily delay the implementation of central clearing and would put Australian based infrastructure at a competitive disadvantage for some time.

The Proposals Paper refers on page 25 to a need to understand "the indirect effects of a clearing mandate on end-users" as a "precondition" to a decision to mandate central clearing of AUD-IRD. This does not appear to have been done ahead of the recommendation for the G4-IRD mandate and it is not relevant to a decision on a mandate for AUD-IRD.

The Australian government made a commitment to its G20 counterparts to mandate central clearing of systemically important standardised OTC contracts.

Australia's regulators have recognised that standardised AUD-IRD are systemically important to the Australian economy and that there would be substantial benefit from increased clearing of AUD-IRD.

ASX is investing more than \$500 million in Australia's central clearing infrastructure to ensure it meets the highest capital standards and is operationally ready. This investment by ASX and the good progress by Australia's regulators has created the option to introduce the mandate for central clearing earlier than initially anticipated.

The market is operationally ready for a central clearing mandate for AUD-IRD for dealer transactions. All active dealers in AUD-IRD have the operational arrangements in place that enable them to respond to a central clearing mandate as direct members of either or both licensed central clearers for AUD-IRD.

In addition, during Q2 2014 ASX will implement a client clearing solution. Therefore, there seems no readiness or other market reason to treat AUD-IRD differently from G4-IRD. There is an argument to phase the mandate, with the dealer

mandate being implemented immediately and client clearing following 6-12 months later. This will allow end investors to be operationally ready for client clearing.

An AUD-IRD central clearing mandate for dealer transactions will ensure that liquidity builds in cleared prices for these standardised OTC contracts.

In contrast, if a G4-IRD central clearing mandate is put in place ahead of an AUD-IRD mandate for dealer transactions the impact will be two-fold.

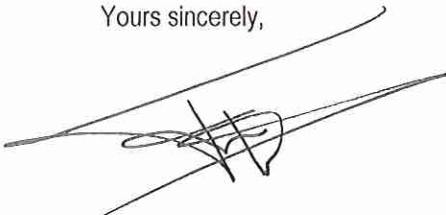
First, central clearing of G4-IRD will continue to be prioritised by affected financial institutions well ahead of AUD-IRD. This affects their allocation of resources. Liquidity will not significantly grow in centrally cleared AUD-IRD until a mandate is announced.

Second, a mandate for G4 currencies without the AUD means that offshore locations will have a competitive advantage over Australia. Since most offshore currencies are cleared overseas, the investment and connectivity will go there first. When an AUD-IRD mandate is subsequently announced the liquidity will be attracted to the central clearer that is in place for G4-IRD, mostly London.

ASX submits that introducing a mandate for AUD-IRD and G4-IRD at the same time is important to achieve the policy objective of central clearing of AUD-IRD OTC contracts and the viability of the choice for clearing of AUD-IRD in Australia. We cannot see any reasons to delay the mandate for AUD-IRD.

We would be happy to engage with policy makers on the importance and practical application of a mandate.

Yours sincerely,



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