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CS Submissions  
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Dear CS Team

### **Reassessing the Case for Central Clearing of Bonds and Repos in Australia**

The Australian Financial Markets Association (AFMA) welcomes the opportunity to respond to Reassessing the Case for Central Clearing of Bonds and Repos in Australia.

AFMA represents the interests of over 125 participants in Australia's wholesale banking and financial markets. Our members include Australian and foreign-owned banks, securities companies, treasury corporations, and traders across a wide range of markets and industry service providers. Our members are the major providers of services to Australian businesses, institutional investors, and superannuation funds.

#### **1. General**

As the industry association charged with supporting and promoting the development of Australian financial markets we come to this consultation as the messenger on overall sentiment of our members towards repo and bond clearing in Australia. While the consultation questions aim to collect empirical data to support clearing, from our feedback such data is only described in character as generalities and not hard data. Hard data is difficult to determine when there are so many variables. Therefore, the case for clearing relies on its benefits around capital requirements and multi-lateral netting benefits drawn from experience in large markets, particularly the United States. The main reason for derivatives clearing based on identifying and managing systemic risk to the system is not present for repo and bond clearing.

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There are a range of views regarding the desirability of repo clearing. A number of incumbent players are indicating strong support for repo clearing for dealer to dealer, meaning a voluntary clearing for the interdealer business. This is in contrast to clearing for clients. The support for dealer to dealer clearing looks to the operational efficiencies which then likely lead to more liquidity and growth, while others in the market consider the attendant costs are going to outweigh these benefits to their businesses.

Beyond the desire for repo clearing member responses amount to “it depends” answers. There is ambivalence around bond clearing but if it helps the case for repo clearing then there is support for inquiring further into the costs and benefits. Clearing depends on a critical mass in the market using the clearing facility. This is certainly a question in the mind of the writers of Question 2 of the consultation. No one really knows the answer beyond saying the more financial instruments are put in it is likely to improve the viability of clearing. Models need to be developed which allow variables to be played with to see their overall effect to determine what the critical mass may be.

AFMA proposes that we move forward now on the basis that a cleared repo market is desired. This requires modelling to determine what else in terms of products needs to go into the mix to make it viable, including participation by the RBA and mandates. Domestic versus international clearing models need to be part of the modelling.

## **2. Key points**

- Changes to the size and structure of the Australian repo and bond markets have strengthened the case for central clearing. These changes include:
  - substantial growth in the size of the market
  - increased participation of non-resident investors
  - increased complexity resulting from the growing number of bilateral clearing arrangements.
- Central clearing would simplify the market structure and could yield other benefits, especially in times of stress.
- The most relevant costs to consider are default fund contributions (and risk weighting), initial margin and clearing fees. There are also additional technology/infrastructure costs to facilitate clearing.
- The RBA and at least the top ten dealers would need to be engaged and actively use the CCP to maximise the benefits.
- A Working Group is needed to look at the costs of the possible models and variations that would allow interdealer repo clearing in the first instance to be commercially viable from a participant clearing provider point of view.

### 3. CFR Consultation questions

#### ***Costs and benefits***

- 1. Have the potential benefits of central clearing the Australian bond and repo markets increased in recent years? What costs/benefits do you view as being the most relevant for consideration of central clearing in the Australian bond and repo markets?***

#### **Benefits**

The potential benefits of central clearing for repo and bond markets are likely to have increased in recent years. The benefits have increased as the bond and repo market size, both breadth and depth, have increased. The increase in regulatory management and charges have also increased significantly since the last consultation in 2015.

There has been an increase in settlement chains and onward deliveries. Such as, settlement risks have increased over time with a greater number of bonds and participants. Increased settlement risk can create a knock-on fails and can be factored in when pricing repo transactions. Further, the settlement risk of a “special” is at times factored into dealing levels, or counterparties black-listed once known to be “unreliable” counterparties for settlements.

For repo central clearing, increased netting of risk through CCP (rather than multiple bilateral relationships) and increased possibility of netting down balance sheet consumption. Improved access to liquidity for both repo cash financing and special covering. Improved price visibility and better secured financing rate data (i.e. SOFIA).

For bonds and repo central clearing, improved settlement processes would reduce the amount of intraday liquidity required whilst also reducing fails / settlement circles and the funding requirement associated with these fails / settlement circles.

The expansion of the bond and repo markets (in terms of participants and liquidity) has meant that the benefits of having a central cleared repo or bond and repo market have increase materially. Broadly speaking, having a centrally cleared repo (or bond and repo) market would enhance the scalability of the market and provide additional benefits as it expands further.

Having a centrally cleared repo market would allow participants to utilise secured financing in a much more dynamic way. Having a more robust, transparent and liquid repo market would attract new participants and increased activity from new and existing participants. The benefits of central clearing will be increased operational efficiency (both in terms of trade processing and margining) and risk reduction.

The recent large increases in outstanding issuance by the AOFM and semi-government authorities indicate that there are additional opportunities for multilateral netting, risk mitigation and operational efficiencies. The more participants involved in the CCP the greater the benefits of central clearing. Central clearing would simplify the market structure and could yield other benefits, especially in times of stress. For example, the RBA’s 2023 Bulletin estimated multilateral netting has the potential to lower settlement obligations by \$60 billion per day.

There are also benefits to the market in a crisis scenario with regards to monetisation. Digital and anonymous execution allows banks facing a name specific crisis to source liquidity where bilateral non-cleared repo may be refused due to credit concerns. The current focus from global regulators on monetisation favour markets where there is a digital and anonymous platform to execute repo transactions, particularly after some of the issues that arose in the banking sector in 2023.

Banks now play a major role in trading ACGB and the stability of funding markets. There are pockets of “trapped liquidity” with banks less inclined to lend via repo, hitting counterparty limits and concentration limits. A CCP would help mitigate these issues. As highlighted in the 2023 RBA bulletin if you had only 10 participants utilising the CCP the cumulative share of netting benefit is 83%. This demonstrates concentration, given we have around ~70 participants. A CCP could bring in more participants and would bring in standard agreements with the CCP compared to individual agreements.

In a constantly evolving regulatory environment a CCP would help participants better adapt to change without impacting the efficiency and stability of financial markets. Having a CCP would release a significant amount of capital because of the impositions of capital rules which are onerous where trading is on a bilateral basis. Because the capital rules for a CCP are based on Trade Exposure and Default fund rather than Counterparty Credit Risk and CVA risk for bilateral activity the capital requirements for the bilateral trades are higher assuming risk weighting for the CCP is lower.

In addition, as the balance sheets of banks have grown tremendously, leverage rules are a binding constraint, a CCP solves for that.

A CCP would also improve operational efficiency, reduction in settlement fails and circles, alleviate settlement bottlenecks.

### **Costs and Impediments**

The most relevant costs to consider are default fund contributions (and risk weighting), initial margin and clearing fees. There are also additional technology/infrastructure costs to facilitate clearing.

The biggest hurdles for central clearing in Australia are the associated costs and persuading a “tail” of users that trading via a CCP is worthwhile. The costs referred to here include cost to build out the CCP, the cost per cleared transaction, IT and system adaptation and the costs of the capital required by the CCP from the participant banks. Cost transparency is key for the market to sign up to the proposed CCP. These costs include:

- Transaction and settlement fees
- Initial onboarding and connectivity to the platform

- The clearing fee a CCP charges for clearing a transaction is a potential challenge. The charge needs to be sensible to encourage use of the CCP and not penalise smaller “tail” users whilst also incentivising large financial institutions to put significant volumes through the CCP. The cost of clearing smaller transactions is enormously expensive in a basis points cost due to CCP’s charging fees on spot-next trades per transaction.
- The cost of default fund contributions would also be an important consideration for prospective clearing participants.

Haircut / margins are a big point of debate in markets outside of Australia and are often focused on more than the clearing fees. Sensible haircuts and netting of long/short positions needs to be implemented. Haircuts/margin can be extraordinarily high in Europe. For example, the haircuts on ultra long end GILT linkers have been >50% in some CCP’s. There should be proper consideration of what the appropriate levels of haircuts / margin should be to realise the potential benefits of the CCP.

The open-ended nature of the consultation leaves a number of imponderables which make it difficult to provide conclusive statements. For example, from an operations perspective would an eligible participant be restricted to a local / on-shore /domestic Market/Clearing Participant, or would a non-Australian entity such as where the trading desk that generally executes Bonds and Repos for a firm is located off shore?

If clearing were to occur through an onshore / domestic entity higher costs would likely be incurred as a local entity would need to be created to participate in it and clients would have to be shifted to that local entity, which would involve time and costs for re-negotiation of master agreements? In addition, the location for holding inventory could affect the efficiency intra-group arrangements from capital and other perspectives.

While central clearing of Bonds and Repos in Australia has the potential to provide greater efficiencies in the settlement process and further protection of assets, the capital, operational costs, rules and procedures to implement and maintain a clearing service still need to be determined as to determine whether it would be viable in practice.

In summary a CCP offers significant benefits in term of reducing counterparty risk, improving capital efficiency, enhancing liquidity, and increasing operational efficiency. These advantages make CCP clearing an attractive option for financial institutions to optimise their risk management and regulatory compliance requirements. This is balanced against the attendant costs and internal operational arrangements which need to be costed as a threshold issue and carefully managed.

### ***Participation and viability***

#### ***2. What do you consider to be the minimum product scope and participation necessary to support effective central clearing in Australian bond and repo markets? Do you envisage any issues arising if a prospective CCP was to clear for a single segment of the market (e.g. bonds only or repos only)?***

At a minimum it would need repo as that is where the demand lies and where you get most of the benefits mentioned in question one. Repo central clearing would be required, and bonds central clearing would be optional. For comparison, in other markets, Germany (Eurex) is repo only, Japan (JSCC) is bonds and repo, UK (LCH Ltd) is repo only and the US (FICC) is bonds and repo.

Repo clearing would open up the opportunity to clear different products under a single legal netting agreement and in the process lower funding cost through cross product exposure netting and cross margining for cleared trades.

As can be determined from the answer to Question 1 central clearing is favoured but there is a big caveat which is that the costs and benefits would need to be analysed in detail before market participants would consider participating in the CCP.

Members noted these concerns include the comments by the Financial Stability Board that central clearing can increase costs to participant banks. Even in the US market a significant proportion of the market is now uncleared. Reasons for this may be related to CCP costs and lack of access to the CCP for segments of the market.

A significant portion of the market should also be using the service to ensure adequate depth to avoid fails between CCP and the rest of the market including the RBA. Bond and repo transactions are often net settled, so any give-up on one side of a transaction (i.e. bonds) must be matched against the other (i.e. repo).

For repo central clearing, participants should be able to trade specific bonds and/or GC baskets across standardised and customised term dates. Initially it could be inter-dealer only and then look at dealer to client and/or sponsored clearing.

Regarding what more generally could be considered for inclusion we would look to vanilla bond and repo transactions both term and open, GC and specials. For the full benefits of central clearing to be realised for the Australian market the RBA would need to be an active participant. The RBA would also potentially need to change their open market operations to allow more than just 28-day OMO maturities. Accordingly, the RBA and all major domestic counterparties would need to be engaged and actively use the CCP to maximise the benefits. It is expected that the RBA outstanding balances will increase over time as QE rolls off (with the RBA having \$113 billion of ACGB maturities rolling off by the end of 2027) and ample liquidity OMO's take effect. ACGBs (nominals and linkers), Semi-Govts (nominals and linkers) and ACTBs would all need to be eligible bonds. It is also suggested that AUD SSAs / IG bonds or IG baskets (similar

to how EUREX have their GC pooling baskets), but this would be nice to have and not required straight away.

The ability to complete automated collateralisation, substitution, reuse, novation of both legs of a repo, multi-lateral netting and compression are desired features.

It should also be noted that many participants in the Australian market already have effective bilateral netting arrangements because of the direct relationships that exist between financial institutions in the local repo market and the smaller number of market participants. Given that bilateral netting already exists. Again, we emphasise that the analysis of the participation costs of a CCP will likely be the key consideration on the viability of central clearing in Australia.

In summary, the market priority is for clearing of repos. This is where the main benefits discussed in Question 1 arise. Repo would open up opportunity to clear different products under a single legal netting agreement and in the process lower funding cost through cross product exposure netting and cross margining for cleared trades. Adding in Bonds would help the settlement flow of having a CCP but this would need the participation of the RBA to make clearing economically viable.

**3. Under what conditions would you participate in a bond and repo CCP if there was one servicing the Australian market?**

For a CCP to be viable you at least need to have the main participants. However, broader participation would allow for greater operational efficiency, reduction in settlement fails and overall reducing counterparty risk for the market. As highlighted in the 2023 RBA bulletin if you had only the top 10 participants utilising the CCP the cumulative share of netting benefits is 83%. Essentially this means all inter-dealer repos flow via repo clearing in Australia.

It is critical to have adequate market uptake and consistent multi-lateral netting treatments to make a CCP viable. Additionally, the access models (direct and indirect) should not impede access to central clearing and need to be economically viable for all market participants.

The costs of a CCP will likely be the main challenge to implementing a CCP along with securing the participation of the RBA. See the Question comment around the costs and haircuts in Europe and Question 2 for reasons why RBA participation would be required.

CCPs also need to meet conditions as a QCCP under the current Basel III Regulatory framework.

*Also refer to response provided to Q4 & Q5.*

**4. In your experience, including with bond and repo CCPs in other jurisdictions, are there likely to be material challenges faced by the Australian market in transitioning to a centrally cleared environment and how might these be overcome?**

In line with the previous comments, market uptake will be critical and access models should not prevent or limit participation.

The fundamental structure for OTC clearing - bilateral execution and novation to the CCP - should be the target model in order to preserve competition at a trade execution level. Directly linking execution to clearing (i.e. execution via the clearing member only) should be avoided if possible.

It also depends on the institution which launches the CCP, if it is a well-known and already established institution, the costs and time to implement for market participants would be significantly less. Aligning the local Rulebook with what is seen in other major markets with a CCP will also help reduce costs and implementation timelines.

Market participants and the Australian regulators both need to be comfortable that a CCP can launch, manage, and withstand stress central clearing for the Australian market. This infers ability to meet current Australian regulatory standards as satisfactory and sufficient for this market.

Smaller banks may not have the resources to meet the minimum requirements initially. In addition, they would receive smaller netting benefits that make joining a CCP uneconomical. Given the composition of the market is concentrated in the top 10-15 participants their participation doesn't dilute the overall benefits of a CCP.

Transitioning to a CCP environment can be costly and would involve additional legal, technological enhancements and operational costs in implementing a CCP. The long-term benefits & capital savings would far outweigh the initial burden.

While the capital requirements for repo transactions are very low from a risk-based capital perspective due to their short-term and over collateralised nature, these transactions consume substantial balance sheet capacity under the Basel III Leverage Ratio measure. It can be shown that the capital costs of repo trading are not adequately reflected in bid-offer spreads, indicating a level of cross-subsidisation which is not sustainable in the longer term. Notwithstanding, repo market-making is integral to the service offering of large wholesale banking institutions. Thus, these firms must consider options and initiatives to reduce their balance sheet, leverage-based capital, and liquidity (e.g., NSFR) costs.

### ***Efficiency and resilience***

***5. What do you view as being material impediments, if any, to the safe and efficient operation of a bond and repo CCP in Australia? Please consider the effects of an extended disruption on your business (such as liquidity and risk management), as well as broader effects such as those related to financial stability and market confidence.***



The current Australian regulatory framework with the expanded Financial Market Infrastructure reforms in place fully addresses this issue.

While the market can operate without a CCP bilaterally currently but an outage of the CCP could cause resourcing issues for participant banks once they had become reliant on the CCP. The CCP would need to be extremely robust and have fallbacks in place to deal with disruptions. Participant banks would also need to maintain and periodically demonstrate their ability to transact without access to the CCP to ensure there will be no significant market disruptions.

As general principle, critical mass (in terms of participants), robust settlement processes and price liquidity are all required for an effective CCP (in both repo only or bonds and repo). Prohibitive costs are also important to consider, need to make sure that the cost of the CCP provider is in line with other providers in other regions. Inadequate access models may limit participation.

Beyond the non-participation of systemically important or large counterparties, product scope and/or settlement disruptions would provide major challenges.

OTC clearing benefits from a central matching utility that routes trades to the CCP (or clearer) and drives the novation process from bilateral to cleared. It ensures trade details are consistent before any trade makes it to the CCP.

Operational processes managed by the CCP to net obligations effectively and efficiently are required, along with sound margining processes.

**6. *How material are issues with settlement chains on the safety and efficiency of the Australian bond and repo markets? In your experience, what are the factors behind these issues? What steps, if any, should a prospective bond and repo CCP or its participants take to mitigate the risk of issues associated with settlement chains?***

This answer reflects the range of member views as AFMA would not be a participant with a common theme around settlement chain concerns in the present market.

- Settlement issues have improved in recent times with less specials in the local market and RBA being available to lend their QE portfolio. However, settlement issues have generally revolved around participant banks not settling until after market or their custodians being unwilling to settle circles. Having the offshore participants custodians and CSD's custodians involved in the CCP could improve settlement efficiencies.
- Settlement chains / circles cause issues on a regular basis. Quite often participants are unable to partial deliver securities which causes everything to grind to a halt.

- There used to be many circumstances that trades failed due to “loop” or “circles” where a lot of dealers were involved and due to lack of transparency about the whole picture in terms of how each trade was connected/linked. Implementation of CCP is most likely help settlement efficiency from transparency perspective at least for inter-dealer broker market. It would help market participants to take actions to clear settlement fails where needed.
- The prospective bond and repo (or repo only) CCP will need to be able to net down all settlements per participant each day. Settlement batches run at multiple times during the day can achieve far less settlement chain blockages / circles.
- Settlement chains can create significant and material impacts on settlement and funding. Post the Covid-19 Yield Curve Control and Quantitative Easing responses the ability to approach the RBA and or Semi Govt Issuers as lenders of last resort provides a beneficial repository of available collateral to “make-good” on any failed settlements. The Australian market is generally a non-fail market, with clear guidelines and roles and responsibilities for fails cover, therefore the number of significant fails is somewhat mitigated.

AFMA in its repo conventions states “it is incumbent on market participants necessary to mitigate settlement failure. In particular, and as a matter of best practice, the party contractually obliged to deliver securities is obliged to take the necessary steps to borrow stock immediately it becomes apparent that settlement failure is likely, and to initiate this process within a timeframe that avoids broader market disruptions and failures.”

A CCP would net off trades prior to settlement, reducing the frequency of fails and the size of the fail. This could also improve market efficiency given we tend to see bottlenecks in the settlement system later in the settlement day which causes banks to cover potential fails “just in case” costing the desk to do so.

Given the concentration of the main market participants holding the greater share of the bond and repo market flow, it’s not uncommon to have “circles/settlement chains”. To break the circle one counterparty would need to go and cover the position to break the circle. The cost of covering the position to do this is not rebated. Having a CCP will help mitigate this issue.

**7. Are there any aspects of the bond and repo markets that in your view are not functioning efficiently? For example, would enhanced transparency in bond and repo markets improve the efficiency of these markets?**

The market is operating relatively effectively but market efficiency and transparency would likely be improved after the introduction of a CCP. Currently there is very little transparency in the Australian repo market with regards to liquidity and pricing. The ASX publishing a SOFIA rate in the near future will assist with transparency on pricing in the very front of the curve, but the introduction of a CCP would likely deliver further enhancements for transparency on both pricing and liquidity.

Credit lines between counterparties over the years have gotten smaller despite the large growth in the Bond and SG market. There are pockets of “trapped liquidity” with banks less inclined to lend via repo, hitting counterparty limits and concentration limits. There is lack of transparency in GC market and OIS spread. More transparency, data and turnover will help internal discussions and assessment around limits and improve confidence in the market.

The current bilateral nature of the Australian repo market means there are barriers for some participants to fully access the domestic market (due to credit limits or GMRAs not being in place) which leads to distortions in how the market trades.

A repo CCP would allow all repo participants to access the same market (products and pricing) which would allow better liquidity and market confidence.

A centrally cleared repo market could see cash injections from non-bank participants (super funds in particular) that had previously been unable to utilise repo as a cash investment product due to its current bilateral nature.

Trading inter-dealer repo on a CCP would also allow for weighted average repo rates to be calculated for each security as well as GC baskets which would provide much needed visibility to the repo market and enable robust secured financing rates to be generated (e.g. how SOFR is calculated in the US).

***8. What actions could regulators or industry take to improve the efficiency and/or resilience of the bond and repo markets, including to reduce information asymmetry and improve price and liquidity discovery?***

Having the appropriate access models available to participants is important, ensuring those that do not have the resources to join directly can still participate indirectly would be an objective expand participation once clearing between dealers is achieved. A CCP with broad market participation would help facilitate data collection on transactions, and so accelerate the development of SOFIA (currently in beta version).

Development of SOFIA as a potentially robust benchmark helps price discovery and promotes liquidity flow between funding products. An observable, market-determined repo reference rate serves as an anchor for other secured and unsecured transactions, allowing liquidity

transfer to occur as a function of any pricing differentials. This is particularly important given some concerns about other existing reference rates as an indicator of market conditions, e.g. relatively low transaction volumes underpinning IBOC, BBSW, and with RBA OMO priced at fixed spread.

There is also benefit for the regulator in having a robust, independent and observable measure of secured funding conditions to assess market health.

The CCP would need to decide how they are linked to order books. For example, do they go down the route of Eurex that runs its own order book, or do they go down the LCH route that relies on 4 or 5 vendors that all charge separate fees in addition to clearing. There are pros and cons to each, but for liquidity and price discovery it could make a difference which option is chosen.

Mandated clearing of repo inter-dealer flow is one option and something that is being pursued in other regions (e.g. the US).

#### ***Location***

#### ***9. Some other major jurisdictions have CCPs operating bond and repo clearing services in their domestic markets. What are your views on an overseas operator providing clearing services for the Australian bond and repo markets?***

The overall preference is to utilise an existing CCP with the frameworks, processes and track record in place to operate a bond and repo CCP. A CCP with existing securities clearing capability may benefit from having an established participant base, while the ASX as the owner of the domestic clearer Austraclear may create greater synergies for the local market and its participants.

Using an existing offshore CCP provider could potentially reduce the cost and time required to go live in Australia. Foreign CCP's would need to be appropriately supervised, and risk managed to ensure there are no risks to financial stability in Australia. There may be additional requirements from local regulators before a foreign CCP provider would be approved to operate in Australia.

On the other hand, a local operator would provide established links into existing facilities and service providers such as triparty and having access to RBA facilities if and when they may need to use them. Additionally, if the major participants are already clearing with the operator, netting benefits could be optimised.

An overseas-based CCP would need to provide support and be fully contactable during the Australian trading hours. You cannot have issues or settlement queries going unanswered during

the day. In international markets CCP have staff available and contactable during the trading day.

Using an existing offshore CCP provider to provide local central clearing could potentially reduce the cost and time required to go live in Australia. Foreign CCP's would need to be appropriately supervised and risk managed to ensure there are no risks to financial stability in Australia. There may be additional requirements from local regulators before a foreign CCP provider would be approved to operate in Australia.

A risk-reducing feature of an overseas CCP is that it will generally have greater capacity and broader more diversified membership to manage the idiosyncratic default of a clearing member. For example, there would be more potential and less correlated surviving clearing members that can participate in the actions of the CCP aimed at hedging and liquidating the portions of the defaulter. Although if there were a global shock that affected all clearing members this would not be the case.

**10. Based on your experience, including in other jurisdictions and markets, what features of an overseas-based CCP could present difficulties or introduce risks in the Australian context? How are these challenges managed in other jurisdictions and are they managed successfully?**

Default risk due to international events specific to Europe/US (or wherever the CCP is based). The CCP would need appropriate management and supervision and have appropriate legal structures in place along with the segregation of margins for different jurisdictions.

The physical nature of bond settlements (DvP) poses an additional challenge over and above the swap and derivative markets.

Additionally, access models should not impede participants from clearing and a trade matching utility may be of benefit.

**11. With the increasing internationalisation of Australian bond and repo markets, do you consider it desirable for a potential bond and repo service to have effective links to trading and settlement services, including international central securities depositories?**

As mentioned above synergies create efficiencies and improved flow of bonds and cash through the various global settlement service providers. Inefficiencies tend to create many of the trade failures we see in Australian Domestic markets. Having the offshore participants custodians and CSD's custodians involved in the CCP could improve settlement efficiencies.

Having the ability to settle in different depositories/locations (i.e. different international central securities depository (ICSD) and global custodians) is useful for participants to consolidate settlement services and ensure that the settlement services create operational efficiencies, enable collateral mobility, facilitate broader access and support end-to-end risk management.

While balance sheet netting rules will normally require settlement to take place in the same depository, a wider choice of settlement venues would enable centralization of efficient collateral management for both Australian participants as well as international participants who connect to ICSDs or global custodians.

A CCP should grow in their offering and look to expand and bring in other platforms, however this can be looked as a second stage approach based on interest, feasibility and optimisation of the CCP.

Realignment between Austraclear and Euroclear to address some issues from an operational perspective and efficient mobilization of Australian government bonds would help increase the liquidity overall.

#### **4. Next Steps**

AFMA proposes moving forward with the objective of clearing the repo market with bonds also being a potential candidate. Work needs to start on modelling what is required to make clearing viable at an acceptable cost to industry.

A Working Group should be formed partnering industry with CFR representatives to work on costing and to steer the project forward. AFMA offers its services to organise and support this Working Group.

Any questions on this letter should be directed to myself, David Love, at [dlove@afma.com.au](mailto:dlove@afma.com.au) or on 0415 903 412.

Yours sincerely



**David Love**  
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