



OTC derivatives reform – an Australian perspective

**Coalition for Derivatives End-Users
End-User Summit**

Washington, 26 February 2015



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Overview

- Australia as an OTCD market
- Australia's approach to OTCD reform
- Progress on the various OTCD reform commitments
- End Users and OTCD reforms
- Centralised Treasury Units
- Mutual recognition
- Key milestones
- More information



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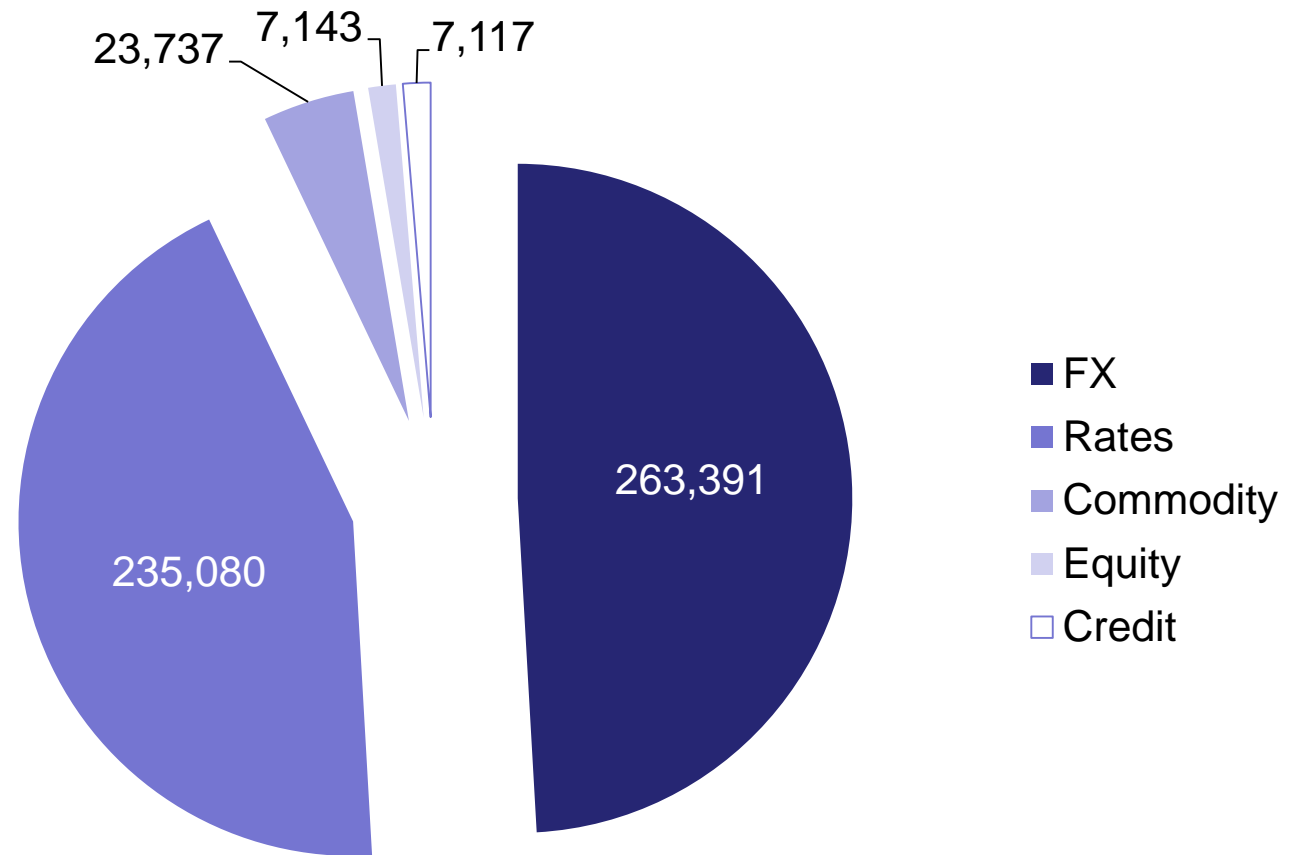
Australia as an OTCD market



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Open positions by asset class (contracts)



Source: DTCC Singapore
Phase 1 and 2 Reporting Entities only
Published figures as at 2015-02-06

Australia's approach to OTCD reform

- Generally adopted a 'fast follower' approach – in practice not before US, EU and Japan
 - This enables us to learn from others' experience
 - This avoids our having to revisit rules to ensure compatibility with key overseas regimes
- We seek to implement in a way that is tailored for the local market and local region
 - Singapore, Hong Kong and Canada are seen as 'peer' jurisdictions on OTCD reforms – smaller open economies with many globally active participants



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Progress on the various OTCD reform commitments in Australia

Mandate	Progress	Instruments scope	Entity scope
Trade reporting	<p>Phasing-in complete in 2015</p> <ul style="list-style-type: none"> •Larger domestic banks and international banks already reporting •Reporting entities below \$50B GNO to be phased in starting in April 	<p>All OTC derivatives</p> <ul style="list-style-type: none"> •Includes longer-dated FX derivatives •Includes trades by foreign entities booked in or entered into in Australia 	<p>Financial entities, ie.</p> <ul style="list-style-type: none"> • Banks and other ADIs • Australian financial services licence holders • Exempt foreign financial service providers • CCPs
Central clearing	<p>Consultation to be launched shortly</p>	<p>G4, AUD-denominated interest rate swaps</p> <p>Other asset classes under review</p>	<p>Internationally active dealers</p>
Platform trading	<p>Analytic framework for recommending a mandate likely to be developed in 2015</p>	<p>TBC</p>	<p>TBC</p>

End users and OTCD reforms



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- ASIC's rulemaking powers do not extend to End Users
 - End Users are defined essentially as non-financial entities, ie entities not regulated as banks/mutuals, dealers or CCPs
 - This is set out in a Gov't Regulation
- End Users are exempt from trade reporting requirements
- Clearing mandate proposed to cover only interdealer trades, ie trades between internationally active dealers
 - End Users as defined won't be covered

Centralised treasury units

- Corporate subsidiary that has a financial services licence is treated as a financial entity for OTCD rules purposes, but
 - Some corporates subsidiaries are able to take advantage of the exemption for own account dealing which is not a substantial part of their business under the Corporations Act, Regulation 7.6.01(1)(m)
 - Government has proposed to limit ASIC's rulemaking power to those asset classes for which a licence is required
 - Also, many financial entities that are part of end user groups would benefit from a Government proposal for one-sided trade reporting for financial entities with less than A\$5B gross notional outstanding



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Mutual recognition



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- We seek to maximise substituted compliance and equivalence possibilities
 - High reliance on international standards e.g. CPSS-IOSCO PFMI for CCP, TR regulation
 - Close engagement with foreign regulators and groupings, eg ODRG/ODRF/ODWG
- We have extended a high degree of deference to other comparable regimes, most notably Singapore's TR regime and several trade reporting regimes including the CFTC's
- So far we have received several positive equivalence assessments from EC/ESMA and CFTC (re some aspects of swap dealer oversight)
- Challenges remain
 - Different pace of implementation in different
 - Some regulators are not able to extend mutual recognition to some types of infrastructure

Key milestones



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13 April 2015

Phase 3A trade reporting starts (A\$5B-A\$50B book size)

12 October 2015

Phase 3B trade reporting starts (all other financial entities)

Likely subject to one-sided reporting

2015

Australian regulators clarify criteria for recommending a trading platforms mandate

Not before early 2016

Central clearing mandate likely to start for interest rate swaps in AUD, USD, EUR, GBP and JPY

Ongoing

Policy development around margin; timing of next steps TBC

More information



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- Search “ASIC OTC Derivatives Reform”
- Dedicated ASIC web pages
 - Rules, Regulations, waivers, FAQs
 - Speeches & presentations
 - TR licence conditions and TR rules
- Email OTCD@asic.gov.au