8 November 2016

Ms Heidi Richards
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Policy and Advice Division
Australian Prudential Regulation Authority

BY EMAIL: ADIpolicy@apra.gov.au

Dear Ms Richards

Prudential Standard APS 180 Capital Adequacy: Counterparty Credit Risk

This submission relates to the new draft prudential standard A*PS 180 Capital Adequacy: Counterparty Credit Risk* ("**APS180**") and is made on behalf of ASX Clear (Futures) Pty Limited and ASX Clear Pty Limited (together, the "**ASX Group CCPs**"), the two central counterparties operated by the ASX Group.

We welcome this opportunity to provide feedback on APS 180. We support APS 180 in principle, however, we have identified several matters that would benefit from clarification by APRA. These matters are set out below.

Background

The ASX Group CCPs clear exchange traded and OTC financial products, including equity and equity index, interest rate and commodity derivatives denominated in AUD and NZD and are regulated by the Reserve Bank of Australia and the Australian Securities and Investments Commission. The clearing members of the ASX Group CCPs include Australian incorporated banks and Australian subsidiary banks and branches of foreign banks incorporated in Europe and the United States ("bank clearing members").

The ASX Group CCPs are "Qualifying CCPs" (or QCCPs) as defined under APS 180. The ASX Group CCPs currently provide their bank clearing members with input data to calculate their capital charge for default fund exposure, based on Method 1 of Basel's Interim Standard for capital requirements for bank exposures to central counterparties. From 1 January 2017, the Interim Standard will be replaced by the Basel Final Standard for capital requirements for bank exposures to central counterparties and the ASX Group CCPs will provide their bank clearing members with the necessary input data to calculate their capital charge for default fund exposure, based on the Final Standard (as and when it is applied in the bank clearing member home jurisdictions). Accordingly, it is desirable to minimise the number of different sets of data the ASX Group CCPs need to provide to their bank clearing members based on local divergences to the Basel Final Standard.

We set out below some matters requiring clarification from APRA.

ASX

1. **Definition of collateral that could be offset against the market value, when calculating replacement cost**

   For the purpose of calculating replacement cost, paragraphs 9 and 10 in Attachment D (SA-CCR) of APS 180 provide that for each netting set, the haircut value of net non-cash collateral is set off against the total market value of all the derivative transactions. By contrast Basel's SA-CCR provides that for each netting set, the haircut value of the net collateral held is set off against the total market value of all the derivative transactions.

   In order to align the SA-CCR under APS 180 with the Basel SA-CCR, the value of cash collateral (haircut as appropriate) should also be included when calculating the replacement cost of derivatives transactions for a netting set. The ASX Group CCPs are unaware of any reason for local divergence of APS 180 from the Basel SA-CCR in this respect. It would be useful if APRA could explain this divergence.

2. **Examples of the start date, end date and maturity date values that would be used as parameters in the calculation of adjusted notional amount for various interest rate derivative transactions**

   The parameters used in the calculation of the adjusted notional amount for interest rate derivative transactions are provided in Table 3 in Attachment D (SA-CCR) of APS 180. The Basel SA-CCR provide examples of how the start, end and maturity dates will be applied in the calculation of the adjusted notional amount for the various types of interest rate derivative transactions.

   In order to align the SA-CCR under APS 180, examples would be equally useful and we suggest APRA consider including examples on the parameters used in the calculation of adjusted notional amount for interest rate derivatives transactions.

3. **Calculation of QCCP capital requirement (K_{QCCP})**

   The conditions that a QCCP has to meet when undertaking the calculation of K_{QCCP} are described in Paragraph 7 in Attachment C of APS 180. It would be extremely helpful for the ASX Group CCPs, if guidance could be provided on APRA's expectations in relation to these conditions, in particular to:

   - the granularity and transparency of the calculations of $K_{QCCP;}$
   - the format in which these calculations should be made available to bank clearing members;
   - what would constitute:
     - "material changes to the number of or the exposure of cleared transactions" to require calculations to be repeated; and
     - "sufficient aggregate information" for the purpose of reporting to APRA.

If you have any questions regarding this submission, please contact

Yours sincerely,

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