AFMA

11 September 2019

General Manager
Policy Development
Policy and Advice Division
Australian Prudential Regulation Authority

By email: PolicyDevelopment@apra.gov.au

Dear Mr Brennan

Consultation on Amendments to Margin Requirements

The Australian Financial Markets Association (AFMA) is making comment on the consultation on Amendments to Margin Requirements set out in the letter of 14 August to all APRA regulated institutions other than private health insurers (the Consultation).

1. Preliminary observations

The Consultation proposes adjustments to the timetable set out in Prudential Standard CPS 226 Margining and risk mitigation for non-centrally cleared derivatives (CPS 226). AFMA and its members individually had a close involvement in the development of CPS 226. AFMA made representations to APRA in 2018 supporting the views presented by ISDA and other industry associations in their joint submission of 12 September 2018 to regulators around the world concerning the final stage of Initial Margin (IM) implementation for the purpose of CPS 226. In those representations we made the case that the final phase should be directed at a systemically significant threshold for covered counterparties. AFMA suggested the threshold based on the aggregate average notional amount (AANA) should be raised to AUD 150 billion, consistent with the ISDA proposal to raise the gross notional threshold for final phase to EUR/USD 100 Billion converted on the CPS 226 standard currency conversion factor.

It continues to be AFMA's view based on member feedback that the final phase of uncleared margin rules CPS 226 implementation presents serious logistical challenges, given the number of counterparties expected to come into scope.

AFMA also said to APRA that maintaining global consistency was important. Accordingly, the BCBS and IOSCO decision, after taking into account industry representations, to give a one-year extension to the final implementation of margin requirements from 1 September 2020 to 1 September 2021 and adjusting the phase-in schedule requiring

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covered entities with an AANA of non-centrally cleared derivatives greater than EUR 50 billion to be subject to margin requirements from 1 September 2020 needs to prevail over other considerations.

2. Globally consistent adjustment supported

Consistent with our previous representations we consider the AANA of 12 billion in the final phase is set too low from a systemic risk perspective, however the proposal to align with the BCBS and IOSCO timetabling decision is of overriding importance and should be implemented.

3. Footnote welcomed

Given that a main industry concern revolves around the great increase in counterparties, many without the scale and resourcing to respond in a timely way to the need to negotiate and agree Credit Support Annexes with attendant operational arrangements with banks, AFMA welcomes the Footnote to Section 22. This addresses the concern that redundant documentation would need to be put in place with a margining group even if the bilateral IM was likely to be less than AUD 75 Million.

The Footnote is most important as clarifying guidance from APRA is needed. APRA's expectation that APRA covered entities will continue to act diligently to monitor their exposures and ensure they have initial margin documentation, custodial arrangements and operational processes in place for posting and collecting initial margin as their exposures approach the threshold is reasonable and accepted by the industry.

4. LIBOR transition accommodation

AFMA strongly supports the proposal to amend footnote 7 which provides the meaning of 'new' non-centrally cleared derivatives transactions and making clear that amending contracts for existing derivative transactions solely for the purpose of addressing interest rate benchmark reforms, such as the LIBOR reforms, would not qualify as new derivative transactions and are, therefore, not subject to margin requirements. IBOR transition is among the biggest issue facing global markets and this accommodation is a most welcome development to assist the industry adjust without additional unnecessary costs.

5. Summary

In summary, AFMA supports APRA's proposals set out in the Consultation.

Please contact David Love either on 02 9776 7995 or by email dlove@afma.com.au if further clarification or elaboration is desired.

Yours sincerely

David Love
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