



**Chris Dalton** | Chief Executive Officer

Level 7, 14 Martin Place, Sydney NSW 2000

**M** +61 (0)403 584 600

**E** [cdalton@securitisation.com.au](mailto:cdalton@securitisation.com.au)

[www.securitisation.com.au](http://www.securitisation.com.au)

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CS Submissions  
Payments Policy Department  
Reserve Bank of Australia  
GPO Box 3947  
Sydney NSW 2001

By email: [CSubmissions@rba.gov.au](mailto:CSubmissions@rba.gov.au)

To the Council of Financial Regulators

**Reassessing the Case for Central Clearing of Bonds and Repos in Australia consultation paper – Australian Securitisation Forum response**

On behalf of the Australian Securitisation Forum (ASF) and its members, we are writing in response to the Council of Financial Regulators consultation paper dated July 2024 on the *Reassessing the Case for Central Clearing of Bonds and Repos in Australia* (consultation paper).

The ASF is the peak body representing the securitisation industry in Australia and New Zealand. The ASF's role is to promote the development of securitisation in Australia and New Zealand by facilitating the formation of industry positions on policy and market matters, representing the industry to local and global policymakers and regulators and advancing the professional standards of the industry through education and market outreach opportunities. The ASF is comprised of a National Committee, specific subcommittees and a national membership of over 200 financial institutions and organisations.

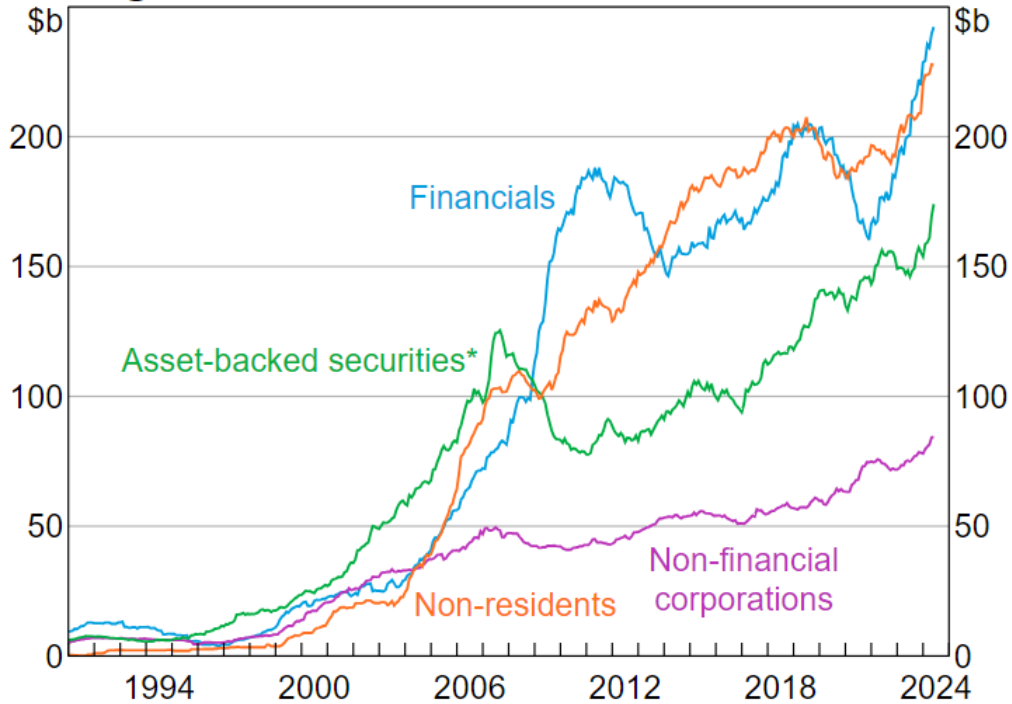
**ASF response to the consultation paper**

The ASF's responses to the questions in the consultation paper, set out in the Annexure to this letter, are limited to information received from various ASF members who are engaged in issuance and investment in both mortgage and asset-backed securities (ABS).

The Australian securitisation market is predominately represented by floating rate amortising mortgage and asset-backed securities. Since the global financial crisis, the large majority of ABS securities have been issued in Australian dollars to local and international investors. The Australian Bureau of Statistics reported that, as of 31 March 2024, A\$175.3 billion of mortgage

and asset-backed securities were outstanding<sup>1</sup>. According to the Reserve Bank of Australia (RBA), these securities represent a significant proportion of non-government securities outstanding in the Australian bond market.

## Non-government Bonds on Issue in Australia



\* Excludes ADIs' self-securitisations.

Sources: ABS; Bloomberg; KangaNews; Private Placement Monitor; RBA.

Australian mortgage and asset-backed securities are settled through the ASX's Austraclear system. The ASF is not aware of any frequent or systemic problems that have occurred between buyers and sellers of ABS that indicate that central clearing of ABS is warranted to maintain the integrity and stability of market-based transactions.

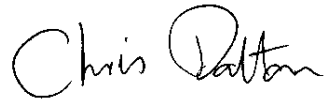
In conclusion, it is unclear what the CFR's proposal (as outlined in the consultation) is trying to solve for and what material benefit would there be by having a central clearing house for Australian ABS, either on a voluntary basis or mandated by regulation.

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<sup>1</sup> <https://www.abs.gov.au/statistics/economy/finance/assets-and-liabilities-australian-securitisers/latest-release>

The ASF appreciates your consideration of the matters raised in this letter and is more than happy to discuss them in further detail, and indeed any other matter relating to the Australian securitisation market, with members of the Council of Financial Regulators including the RBA.

Yours sincerely,

A handwritten signature in black ink that reads "Chris Dalton". The signature is written in a cursive style with a large, prominent 'C' at the beginning.

Chris Dalton, Chief Executive Officer – Australian Securitisation Forum

## Annexure

### ASF responses to CFR consultation paper 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?*

The ASF is of the view that there would be little benefit from the central clearing of ABS and this market segment of the bond market should be excluded from consideration of central clearing of other segments of the bond market.

#### 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)?*

The ASF believes central clearing should only be considered for the largest and most frequently traded segments of the bond market. Indeed, there might be a case to consider for central clearing of senior financial bonds where there are likely to be hundreds if not thousands of possible counterparties globally. However, the ABS market is quite heterogeneous and not traded as frequently as the government or semi-government segments of the bond market.

The primary question to ask is whether the Australian ABS market is big enough to warrant central clearing. In the United States (US), we understand that agency MBS such as Fannie Mae and Freddie Mac bonds are centrally cleared for the most part due to that market's size and the agency arrangement in place for funding MBS guaranteed by the US Government. On the other hand, ABS are not centrally cleared in the US.

According to the RBA's own research, analysing examining secondary market liquidity in A\$ ABS market from 2017 to 2020<sup>2</sup>, the ABS sector was at that time, the least traded sector in the public bond market. Therefore, we question the case for introducing a centralised risk management platform, in the form of central clearing, to ensure there is no systemic risk for Australian market participants in a market given what was a relatively small turnover in trading compared to offshore markets.

Given ABS trades are usually settled on a T+2-day basis in the secondary market, there is limited counterparty risk with such a short tenor. There is also a relatively small cohort of large institutional investors who invest in ABS and it is not clear how central clearing might lead to more trades and new investors participating in the Australian ABS market. Perhaps there might be a greater case for central clearing of senior financial bonds where there are likely to be hundreds if not thousands of possible counterparties globally. If

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<sup>2</sup> [Secondary Market Liquidity in Bonds and Asset-backed Securities | Bulletin – December 2020 | RBA](#)

central clearing is only voluntary or optional, this could potentially lead to one market that is centrally cleared and one that is still transacted on a bilateral basis. Practically there would have to be a mandated central clearing function in order to capture Australian ABS. Otherwise, it is unlikely that the ABS market participants will opt in to central clearing and, if any do, this would create a bifurcated market which could inadvertently introduce more systemic risk rather than eliminate it.

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

This question would be best addressed by individual market participants rather than by an industry association.

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?*

A requirement to centrally clear ABS trades would require a substantial initial investment in order to facilitate central clearing. There is an inherent cost in the establishment and ongoing functioning of a central clearing house. It requires counterparties to put in place large liquidity facilities in support of margin calls together with fees imposed for day-to-day trading. For a small market like the Australian ABS market this would be a sizable impost that may have an impact on the economic benefits of investing in the ABS sector.

## 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.*

No comment.

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?*

No comment.

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?*

No comment.

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?*

No comment.

## 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 Australian ABS market is a well-established and successfully functioning regional securitisation market. Transaction structures and features do not necessarily mirror other ABS markets, particularly the US securitisation market. A CCP would have to develop or modify systems to cater for the uniqueness of the Australian ABS market. As an alternative, there may be a case for a global or international central clearing platform to facilitate investment by international institutions in Australian ABS securities.

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?*

No comment.

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?*

No comment.