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2 September 2024

To: The Council of Financial Regulators
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RE: Reassessing the Case for Central Clearing of Bonds and Repos in Australia

I, Shumi Akhtar (Associate Professor at the University of Sydney, would like to express my gratitude to the Australian Security and Exchange Commission inviting me to make this submission on the inquiry into Reassessing the Case for Central Clearing of Bonds and Repos in Australia. It has been nearly a decade since the last review in 2015. A key consideration now is understanding where Australia stands in comparison to other countries regarding government bond issuance.

Before addressing items #7 and #8 of this inquiry, it is crucial to compare international government bond markets. Figure 1 provides a comparison of government bond issuance frequencies between Australia, Singapore, and Hong Kong—countries chosen due to their closer comparability with Australia than others.

Figure 1 illustrates the frequency of government bond issuances from 2010 to 2024. Hong Kong shows the highest frequency, with nearly 2000 issuances, indicating a highly active bond market likely driven by frequent funding needs and robust liquidity management strategies. Singapore has a moderate frequency, suggesting a balanced approach to government funding and market engagement, with fewer issuances than Hong Kong but more than Australia. Australia, with fewer than 500 issuances, reflects a different fiscal strategy. This comparison highlights the strategic differences in government bond market operations across these regions, shaped by their distinct economic policies and financial market structures.

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Figure 1

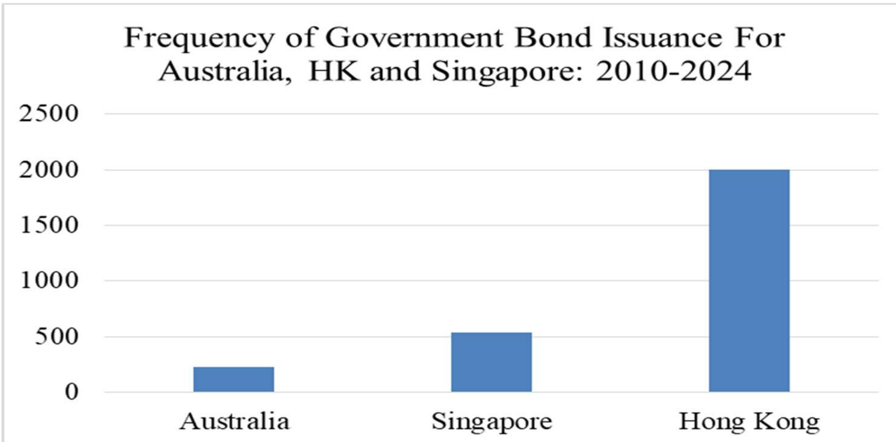
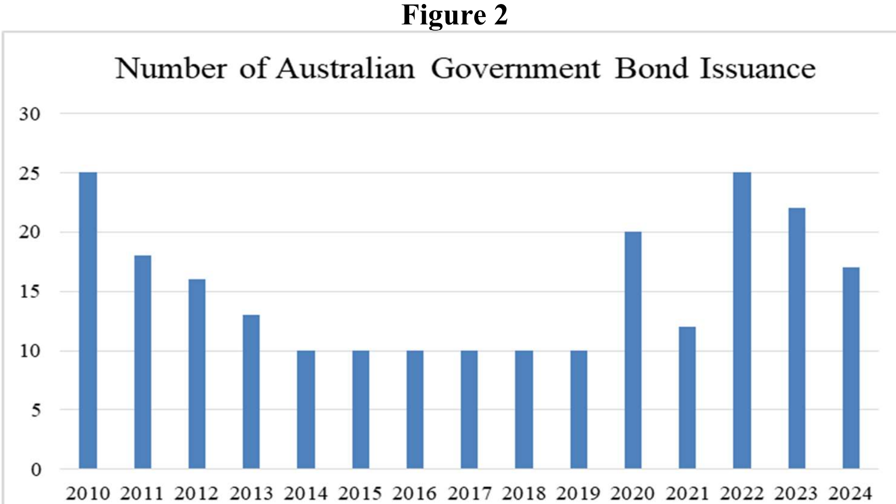


Figure 2 shows that Peaks in 2010, 2020, and 2022, each with around 25 issuances, reflect responses to significant economic events. The 2010 peak follows the Global Financial Crisis, indicating increased borrowing to support recovery efforts. In 2020, bond issuance surged as the government funded extensive COVID-19 economic relief measures. The continued high frequency in 2022 points to ongoing fiscal support amid post-pandemic recovery. The varying frequency of bond issuances demonstrates the Australian Government's adaptive fiscal strategy, using bond issuance as a key tool for managing economic challenges and funding requirements. High issuance rates during economic crises highlight the government’s proactive use of bonds to support the economy, offering insights into fiscal policy dynamics relevant for market participants and policymakers.

Figure 2



Fowlloing the discussion above, my views on #7 and #8 are:

#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 bond and repo markets in Australia face inefficiencies primarily due to limited transparency, market fragmentation, and insufficient central clearing. The lack of comprehensive trade reporting, especially in the government bond and repo market, leads to information asymmetry, hindering effective price discovery, risk assessment and diverse investor' participation. Additionally, the fragmentation of trading platforms and settlement systems increases transaction costs and operational complexities. Enhancing transparency through mandatory trade reporting and expanding central clearing could significantly improve market efficiency. For example, implementing a centralised trade repository similar to the U.S. TRACE system (which is used for corporate bonds) would provide clearer pricing data, reduce counterparty risk, and improve liquidity. Expanding central clearing for a broader range of participants, including smaller institutions, would further mitigate risks and enhance market resilience. These steps would align Australia with international best practices, fostering a more robust and efficient bond and repo market. Australia is clearly in critical need for establishing a Clearing House.

#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?

Australian regulators and industry partners can improve bond and repo markets by implementing actions seen internationally. To improve the efficiency and resilience of bond and repo markets, regulators can look to actions taken in the U.S. Treasury market. The U.S. has enhanced transparency and liquidity by implementing mandatory central clearing for U.S. Treasury securities and repos through the Fixed Income Clearing Corporation (FICC). This reduces counterparty risk and improves market stability. Additionally, the introduction of realtime trade reporting for Treasury securities, including through the expansion of TRACE (e.g., although it is for corporate bonds but can be adopted for Government bonds) for Treasury transactions, has significantly reduced information asymmetry, improved price discovery and liquidity. Europe has strengthened market resilience by expanding central clearing requirements under the European Market Infrastructure Regulation (EMIR), reducing counterparty risk in repo markets. In Japan, the introduction of the Japanese Government Bond Clearing Corporation (JGBCC) for central clearing has enhanced market stability and operational efficiency. Additionally, the all-to-all trading model in the U.S. Treasury market allows various market participants to trade with each other, increasing market liquidity and reducing reliance on traditional intermediaries. By adopting similar measures—such as mandatory trade reporting, expanded central clearing, and inclusive trading platforms—Australia can enhance the efficiency and resilience of its bond and repo markets, aligning with global best practices.

In conclusion, establishing a Central Clearing House in Australia is essential to improve data accessibility and support further research. The current lack of comprehensive data availability hampers our ability to educate students about the Australian bond market, limits foreign investment, and undermines Australia's competitive position on the international stage. By enhancing data quality and transparency through a centralized clearing system, we can better equip future professionals, attract more foreign investment, and strengthen Australia's standing in the global financial markets.

Sincerely,
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