

OTC Derivatives Central Clearing Consultation
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AUSTRALIA

ABS comments on the Discussion Paper on Central Clearing of OTC Derivatives in Australia

1. The Australian Bureau of Statistics (ABS) would like to take this opportunity to comment on the discussion paper, Central Clearing of Over-the-counter (OTC) Derivatives in Australia, issued by the Reserve Bank of Australia (RBA) on behalf of the Council of Financial Regulators. The ABS sees the proposal to establish a Central Counterparty (CCP) in Australia as an opportunity to address deficiencies in the quality of information on financial derivatives available for compiling the national and international accounts.
2. The derivatives markets have been a significant component of global financial markets for a number of decades. In recognition of this, the System of National Accounts (SNA) and the Balance of Payments Manual (BPM) require detailed reporting of derivatives stocks and flows, in line with reporting for other financial instruments. The basis for reporting, and for presentation in the accounts, is market values. The accounts require full reconciliation accounting that decomposes the change in the level of derivatives assets and liabilities into key components: new transactions, changes in market values due to exchange rate and other price changes, and other changes in volume. The accounts also require a sectoral breakdown that seeks to measure transactions between the major institutional sectors of the economy, these being non-financial corporations, financial corporations, general government, households, not-for-profit institutions serving households, and the rest of the world.
3. Much of this information has proven difficult to collect by conventional means because commercial accounting systems are not set up to generate all of the information required for compiling the national and international accounts. These difficulties are compounded by the multiplicity of counterparties and types of derivatives traded in the Australian and global financial markets.
4. Given their potential to enhance the quality of OTC derivatives information available to the ABS, and also to reduce significantly the statistical reporting burden on companies that provide data to the ABS, the ABS would be very happy to contribute to the development of any proposal to establish a CCP in Australia.
5. The ABS notes that the availability of useful data depends on the way the proposed CCP operates.

6. This can be illustrated with a simple example. Our understanding is that, under the current proposal, a domestic fixed for floating swap between two Australian counterparties A and B would be replaced by transactions between A and a CCP, and a CCP and B. Some detail on the institutional sectors involved in the derivatives market would be available simply by recording the institutional sectors of A and B. If the two counterparties were linked it would also be possible to provide detail on intersectoral positions.
7. It is noted that the current proposal is for a CCP to transact only with a select group of major intermediaries in the OTC derivatives markets. Expanding the range of counterparties able to transact with a CCP would provide more comprehensive data on OTC derivatives, enhancing their usefulness for statistical purposes.
8. OTC derivatives transactions between domestic and overseas counterparties are a significant component of the overall market for derivatives in Australia. Derivatives positions form an integral part of the international financial accounts within the balance of payments and international investment position, with derivative assets and liabilities positions with overseas counterparties in the order of \$100b. Consistent with this, the 'rest of the world' is also a significant institutional sector within the national accounts. The Survey of Foreign Currency Exposures conducted by the ABS measures foreign currency exposures of the Australian economy, and a significant part of these exposures arise through derivative transactions with overseas counterparties. The ABS believes that the utility of the CCP as a source of information would be maximised if OTC derivatives transacted with overseas counterparties are also transferred/reported to a domestic CCP.
9. The national and international accounts seek to provide a comprehensive presentation of financial transactions in the Australian economy. It is noted that the current proposal is to include a relatively limited set of standardised OTC transactions. In order to provide more comprehensive data on OTC derivatives, the ABS suggests that expanding the range of OTC derivatives transacted with a CCP be considered. The particular importance of longer dated derivatives should be considered because of the potential for such transactions to have large market values.
10. As noted above, OTC derivatives transactions are included in the national and international accounts on a market value basis. It is recognised that given their primary role in managing risk, a CCP may need to measure and report market exposures that will generally be different from market values. The ABS strongly supports any proposal to require that a CCP also report on a market value basis.
11. The parallel discussions on Trade Repositories (TRs) initiated by the Financial Stability Board as part of the G20 Finance Ministers' initiatives on data gaps are noted. These also provide an opportunity to enhance the derivatives data available to the ABS. The ABS would be very happy to contribute to the development of any proposal regarding the information needs for a CCP and/or TR in Australia.

12. In summary, the ABS would like to ensure that any proposal for a CCP maximises the opportunity to improve the quality of derivatives data available to policy makers and analysts, and also to reduce the reporting burden on companies providing data to the ABS.

13. Any queries on the ABS' views should be directed to Derick Cullen, Director Macroeconomic Statistics Research Section, on d.cullen@abs.gov.au or (02) 6252 7139.

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