Reassessing the Case for Central Clearing of Bonds and Repos in Australia

A Response to Consultation by the Council of Financial Regulators

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Council of Financial Regulators

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Executive Summary

In 2024, the Council of Financial Regulators (CFR) conducted a public consultation on the case for central clearing of bonds and repurchase agreements (repos) in Australia. The consultation sought views from respondents on a range of related issues including: (i) the costs and benefits of central clearing in these markets; (ii) market functioning and financial stability considerations; and (iii) issues related to a prospective service being provided from overseas. This paper provides the CFR's response to the public consultation.

The CFR agrees with respondent feedback that the introduction of central clearing could enhance the efficiency and stability of the Australian bond and repo markets. The CFR supports the industry exploring the introduction of central clearing in the Australian bond and repo markets where the benefits are likely to outweigh the costs. The CFR does not consider there to be a compelling case for regulatory intervention to introduce central clearing in these markets at this time.

Prospective operators will need to manage several challenges as part of the design of a bond and repo central counterparty (CCP). These include attracting a critical mass of participants and the timing of development and go-live of any service to ensure it is safe and successful. The CFR expects a bond and repo CCP to be well-supported by the industry and viable in the long term. An unsuccessful CCP is unlikely to be beneficial for market development, efficiency, financial stability or the Australian economy.

Feedback from some respondents indicated that previous statements from the CFR agencies have been interpreted as a blanket 'domestic location requirement' for the central clearing of bond and repos in Australia. The CFR does not have a blanket domestic location requirement for the central clearing of bond and repos in Australia. The decision to grant (or not to grant) a clearing and settlement (CS) facility licence will be determined on a case-by-case basis. This would involve consideration of all the facts and circumstances relevant to the CS facility, including its participants and the functioning of Australian bond and repo markets.

The CFR notes respondent feedback around the efficiency and resilience of the Australian bond and repo markets, which are viewed by participants as broadly efficient and resilient. Market transparency and challenges associated with settlement chains have been identified as areas where efficiency could be enhanced. The CFR's view is that there are opportunities for improvement that the industry could explore without the need for regulatory intervention. The CFR strongly encourages industry members to work together to identify and implement initiatives designed to improve transparency and settlement efficiency. Over the longer term, the CFR will monitor developments in the Australian bond and repo markets to support competitiveness, growth, efficiency, public confidence and informed participation.

1. Introduction

The Australian bond market plays a number of important roles in the Australian economy and financial system. It facilitates the issuance of government and corporate debt and is important for financial market participants' management of financial risks. The market for Australian Government Securities (AGS) also serves as a benchmark for the pricing of other financial assets. AGS and semi-government bonds (semis) are commonly used by financial market participants to meet margin and collateral requirements and qualify as high-quality liquid assets for banks' prudential liquidity requirements.[1]

Repos are one of the most common forms of collateralised short-term financing in wholesale markets. A repo is an agreement between two parties – a securities provider and a cash provider. The securities provider sells a security to the cash provider, committing to repurchase that security at a later date at an agreed price. The difference between the sale and repurchase price reflects the interest rate paid by the securities provider to the cash provider. Repos play an important role in facilitating the flow of cash and securities around the financial system. They are one of the main instruments used by the Reserve Bank of Australia (RBA) to undertake its domestic market operations and to provide liquidity via its standing facilities. Repo transactions between market participants are typically collateralised with government securities due to their status as a high-quality liquid asset.

Currently, there is no CCP that clears transactions in the Australian bond and repo markets. This means that clearing occurs bilaterally through a complex web of transactions between participants. Recent analysis by RBA staff indicates that the potential benefits of central clearing bonds and repos in Australia have increased since the RBA's previous consultation in 2015.[2] This reflects substantial growth in the underlying markets and structural change in the composition of market participants.

In response to this analysis and renewed interest from Australian market participants, the CFR conducted a public consultation to reassess the case for central clearing of bonds and repos in Australia. The consultation sought views from respondents on a range of related issues, including: (i) the costs and benefits of central clearing in these markets; (ii) market functioning and financial stability considerations; and (iii) issues related to a prospective service being provided by an overseas operator.

This paper provides the CFR's response to the public consultation. A summary of respondent feedback is provided in Section 2. The CFR's assessment and response is provided in Section 3.

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1 Australian Government Securities are issued by the Australian Government; semi-government bonds are issued by Australian state and territory governments.

2 RBA (2015), 'Central Clearing of Repos in Australia: A Consultation Paper', April.

2. Feedback from Consultation

The consultation received 22 written submissions, including six confidential submissions.[3] Respondents included domestic and overseas CS facilities, market operators, Australian major banks, international banks, buy-side firms, academics and industry associations. Australian Securities and Investments Commission (ASIC), RBA and Treasury staff met with a number of respondents to discuss their submissions to the consultation.

2.1 Costs and benefits of central clearing

Most respondents agreed that the potential benefits of central clearing in the Australian bond and repo markets had increased in recent years following changes in the markets' size and structure. Some respondents noted that these benefits would be unevenly distributed across different segments of the market. In particular, the benefits were expected to be greatest for the inter-dealer segment of the repo market (which comprises of banks and other financial institutions). Some respondents also cautioned that an unsuccessful or short-lived CCP is unlikely to be beneficial for market development, efficiency, financial stability or the Australian economy.

Two respondents did not consider the potential benefits had increased sufficiently to support central clearing of the Australian bond and repo markets at this time. In particular, one of these respondents viewed the set-up and ongoing costs for industry as outweighing the benefits.

Feedback on the costs and benefits of central clearing the Australian bond and repo markets is discussed in further detail below.

2.1.1 Costs

Table 1 summarises respondent feedback on the costs associated with central clearing in the Australian bond and repo markets.

3 The non-confidential submissions are available on the CFR website.

Table 1: Costs associated with central clearing of bonds and repos in Australia

Costs	Respondent views
Significant initial set-up and resourcing costs for industry	Most respondents anticipate significant set-up costs associated with the introduction of a CCP. These include technological, legal, operational and change management costs associated with building and connecting to the CCP. There may also be additional compliance costs, including reporting requirements. Respondents highlighted that a move to central clearing for bonds and repos could pose significant resourcing challenges for the industry. There is substantial change either underway or planned in other parts of Australian financial markets. One respondent posited that the CHESS replacement project and a potential transition to T+1 settlement should be the focus and priority for the industry. The introduction of a bond and repo CCP is likely to compete for the same resources as these priorities. Several respondents suggested that providing the market with sufficient time to build and test systems prior to go-live or a phased implementation could mitigate some of these risks.
Ongoing costs to participate	Respondents noted the following likely ongoing costs of participating in a CCP: • default fund contributions • margin requirements • clearing fees • costs associated with connecting to the CCP. Some respondents suggested that the above costs may result in the 'per ticket' cost of cleared transactions being greater than equivalent bilateral transactions. Two respondents noted that this difference would be greater where market participants do not fully price the risk inherent in bilateral trades into their transactions.
Market dynamics and risk management	One respondent noted that participants could become operationally reliant on the CCP's risk management process, potentially diminishing the robustness of their own risk management practices. Several respondents remarked that the introduction of a CCP could bifurcate the bond and repo markets into cleared and uncleared segments. This raised concerns around the challenges associated with fragmented markets. These respondents noted there may be additional complexities to completing settlement for chains that involve both cleared and uncleared trades. This could increase the risk of delayed or failed settlements in the market. One respondent noted that participants in the CCP could behave in a uniform manner during stressed conditions (due to being subject to the same rules). The respondent suggested this could be a potential source of systemic risk if it limited trading capacity or introduced liquidity constraints.

2.1.2 Benefits

Table 2 summarises respondent feedback on the benefits associated with central clearing in the Australian bond and repo markets.

Table 2: Benefits associated with central clearing of bonds and repos in Australia

Benefits	Respondent views
Reduced counterparty credit risk	Most respondents noted that a key benefit of central clearing is the reduction of counterparty risk through novation and risk management practices of the CCP. Central clearing could enhance the stability of the Australian bond and repo markets by reducing risks related to participant default. Some respondents indicated that the reduction of counterparty credit risk could lead to greater market liquidity. Respondents also reported that there were instances of 'trapped liquidity' in the bilateral market arising from banks being less inclined to lend via repo due to counterparty credit limits. One respondent pointed to the US Treasury market, where central clearing of repos supports the provision of liquidity during market dislocations and liquidity crunches. Respondents also suggested that replacing bilateral exposures with a single exposure to a CCP could encourage participants to execute transactions with a broader range of counterparties. This could also support the growth and liquidity of the Australian bond and repo markets by encouraging new participants to enter these markets.
Greater balance sheet efficiencies	The majority of respondents noted that the netting of exposures against a single counterparty (the CCP) could increase market liquidity by freeing up capacity on participants' balance sheets. Netted exposures can generate lower margin requirements compared with bilateral exposures, reducing capital requirements. One respondent noted that some participants, if able to act as sponsors for their clients, may be able to achieve greater capital benefits via the netting of offsetting client exposures.
Greater operational efficiencies	Respondents generally agreed that a CCP would be likely to provide operational efficiencies through the netting of settlement obligations. The potential benefits from netting could be material as the frequency of settlement chains and complexity of onward deliveries under bilateral clearing arrangements had increased in recent years. Some respondents also suggested that a CCP could promote the adoption, or greater use, of electronic trading. This could further enhance operational efficiency by increasing standardisation and facilitating straight-through processing of transactions.

Benefits	Respondent views
Transparency benefits	The majority of respondents considered that the introduction of a CCP could lead to enhanced transparency in certain aspects of the Australian bond and repo markets. A CCP could provide more reliable data for benchmark calculations. A CCP could also assist with comprehensive and standardised securities financing transaction reporting and contribute to a more reliable and efficient pricing mechanism if data were provided to participants.
Support financial stability and market resilience	Some respondents noted the introduction of a CCP could lead to risk management processes that are centralised, standardised, and more transparent. A CCP could also facilitate more orderly management of a default compared with the bilateral market. Some respondents considered that a well-managed CCP could contribute to financial stability by: • using tools that mitigate the risks of short-term volatility leading to sudden increases in clearing fund requirements • ensuring that sufficient prefunded resources and capabilities are available to efficiently handle a default scenario under extreme but plausible market conditions • incentivising responsible risk management through default fund and margin requirements that are based on the risk profile of participant portfolios.

2.2 CCP design and viability

2.2.1 Product scope

Most respondents viewed the central clearing of repo transactions collateralised by Australian government bonds as the minimum product offering for a prospective CCP. There were mixed views on whether a prospective CCP must also clear government bond transactions. Respondents mostly agreed that the benefits of central clearing repo transactions would be greater than bond transactions. However, some respondents raised concerns that a repo-only service may create additional frictions in moving securities between the cleared and uncleared markets, which could increase settlement delays or failures. Overall, respondents generally agreed that there are operational and netting benefits in clearing government bonds and repos at a single service.

Only one respondent suggested that all bonds, including non-government bonds, should be considered part of the minimum product offering of a prospective CCP. This respondent noted that fragmentation of the bond market based on the underlying debt instrument segment could create confusion and inconsistency for market participants. However, another respondent argued that parts of the non-government bond market, such as the asset-backed securities segment, may not be sufficiently large or have sufficient liquidity to warrant central clearing.

2.2.2 Participation and viability

Market participants generally expressed interest in exploring participation in a bond and repo CCP. Table 3 outlines some of the considerations raised by respondents that might consider participation in a prospective CCP.

Table 3: Considerations for participation in a bond and repo CCP

Consideration	Respondent views
Critical mass of participants	Market participants emphasised that their participation would be conditional on a prospective CCP demonstrating it could achieve a 'critical mass' of key inter-dealer participants. Several respondents indicated that participation from the largest 10-15 market participants may be required to ensure the efficiency and netting benefits exceed the costs of participation. These participants are estimated to generate over 80 per cent of the netting benefits.[4] Participation by smaller participants was generally viewed as less critical as their portfolios are expected to generate lower overall netting benefits.
Client access	Several respondents suggested a prospective CCP should consider supporting client clearing, such as through a 'sponsored' access model. Facilitating access for smaller participants could broaden the pool of potential counterparties and increase the benefits from central clearing. Respondents emphasised that a prospective CCP would need to offer appropriate client access models to ensure they receive broad support by participants and take-up by clients.
RBA participation	While respondents acknowledged the RBA has no current plans to join a bond and repo CCP, some noted that the RBA's participation would increase the benefits. However, these respondents also acknowledged that the RBA's participation may no longer be necessary for the CCP to be commercially viable. One respondent suggested that participation by overseas central banks active in the Australian government bond market could further enhance the credibility and attractiveness of these markets.
Cost structure	Respondents generally agreed that a competitive and transparent cost structure that is proportionate to the participant's clearing activity and risk would be a consideration in their participation. This included clearing fees, margin and default fund contributions. One respondent suggested that clearing fees should be set in a manner that promotes volume from large market participants while not penalising smaller market participants.
Market conventions	Respondents expected that a prospective CCP would need to integrate with market practices and processes. For example, a prospective CCP would need to establish links with payment and securities settlement systems. It would also be expected to provide operational support during Australian business hours and accommodate local market practices.

[4] Cheshire J and J Embry (2023), 'Reassessing the Costs and Benefits of Centrally Clearing the Australian Bond Market', RBA *Bulletin*, March.

Risk management framework	Respondents generally agreed that the robustness of a prospective CCP's risk management frameworks and recovery and resolution plans would be a consideration in their participation.

2.2.3 Incentives for clearing

Respondents suggested a number of measures that could increase the take-up of a prospective bond and repo CCP in Australia (Table 4).

Table 4: Incentives to encourage central clearing of bonds and repos

Incentive	Respondent views
Clearing mandate	Several respondents indicated that a clearing mandate would be necessary to achieve critical mass of participation at a prospective CCP. This view was not held by all respondents. One respondent noted that it may be premature to consider a mandate when there are no CCPs currently operating in the Australian bond and repo markets. There was reference to the recent changes of the US SEC rules to facilitate increased central clearing in the US Treasury market. Respondents noted that some of the motivating factors for these changes are less applicable to the Australian market. One respondent indicated that a clearing mandate would be of limited benefit to the asset-backed securities segment of the market.
Other regulatory incentives	A number of other regulatory interventions that could incentivise participation in central clearing were suggested by respondents. These included: (i) changes in the capital treatment of uncleared repos; (ii) minimum haircuts for bilateral trades; (iii) changes to the major bank levy relating to repo transactions; and (iv) encouragement from regulators to achieve market coordination.
Incentives offered by the CCP	Several respondents highlighted that central clearing of complementary products or existing clearing relationships could be a factor in their decision to participate at the CCP.

2.3 Efficiency and resilience of bond and repo markets

2.3.1 Safe and efficient operation

Respondents raised several considerations related to the safe and efficient operation of a bond and repo CCP in Australia (Table 5):

Table 5: Factors relevant to the safe and efficient operation of a bond and repo CCP in Australia

Factor	Respondent views
Interconnectedness	Respondents indicated that a prospective bond and repo CCP would be expected to be interconnected with key aspects of the Australian financial system. Potential linkages include other financial market infrastructures (FMIs) (such as securities settlement facilities and payment systems), government debt issuance, and the RBA's open market operations. These linkages mean that a disruption to the bond and repo CCP could spill over into Australian financial markets through diminished market liquidity, increased funding costs and settlement delays.
Robust risk management practices	Many respondents emphasised the importance of effective and robust risk management practices at a prospective bond and repo CCP. These include appropriate margin and default fund processes, robust default management and recovery plans, and effective cybersecurity controls. In addition, a prospective CCP should be supervised against appropriate risk management standards such as the Principles for Financial Market Infrastructure (PFMI) and the Australian regulatory framework.
Support for Australian market practices	Respondents noted the expectation that any prospective bond and repo CCP would provide operational support during Australian business hours and accommodate local market practices. There was broad support among respondents for a prospective bond and repo CCP to have links with international central securities depositories (ICSDs) to assist with market efficiency, collateral management and the flow of securities between different settlement providers.
Backup arrangements	Several respondents suggested effective backup arrangements would be required in the event of a disruption at the CCP. For example, participants should maintain and periodically test the capability to conduct bilateral trades. Some respondents suggested that the CCP should seek access to the RBA's liquidity and stock lending facilities to manage liquidity needs, enhance market stability and reinforce confidence during stress events. This access would not require the RBA to be a direct participant at the CCP.

2.3.2 Aspects of the bond and repo markets not functioning efficiently

Overall, respondents expressed confidence in the effectiveness of the functioning of bond and repo markets. Nevertheless, there were several areas identified where the efficiency of the market could be enhanced (Table 6).

Table 6: Aspects of the bond and repo market not functioning effectively

Areas for improvement	Respondent views
Inefficient processes and fragmented trading venues	Some respondents indicated that the bond and repo markets rely heavily on manual processes, with transactions generally conducted via phone, email or messaging platforms. One respondent pointed to inefficiencies arising from the absence of a single venue for the trading and settlement of bonds and repos.
Market transparency	From the perspective of market transparency, a number of respondents indicated that the absence of available data on aggregate traded volumes was a key gap. Some respondents also remarked that the absence of published transaction-level data created significant information asymmetry in bond and repo markets in Australia. This places a high reliance on large dealers for liquidity discovery and market prices. This could act as a disincentive to participation by overseas investors, especially those that typically trade in markets with mandatory post-trade reporting.
Settlement inefficiencies	Some respondents asserted that settlement chains and circles are prevalent in the Australian bond market.[5] These can impose costs on market participants if a counterparty in the chain is unable to fulfil its obligations on time. Multiple respondents noted that bottlenecks in the settlement system often occur late in the day. These bottlenecks are partly driven by differences in the business hours of the ICSDs and Austraclear. Market participants sometimes pre-emptively 'over-borrow' securities to ensure they can meet Austraclear settlement cut-off times if they perceive there to be a risk they will not receive the required securities from an ICSD in time. One respondent noted that this significantly increases the cost of these transactions.

2.3.3 Potential actions to enhance efficiency and resilience

Many respondents suggested that the introduction of central clearing could enhance the efficiency and resilience of the Australian bond and repo markets. For example, broad adoption of central clearing could drive the development of initiatives such as electronic trading, process automation and increased standardisation across trading venues. A CCP could also reduce the inefficiencies posed by settlement chains and circles by netting off trades between participants, which reduces the size and volume of trades that require settlement. In addition, respondents indicated that a bond and repo CCP could facilitate more accurate data collection, which may be used for benchmark calculations and provide regulators with greater visibility of market activity. However, respondents also acknowledged that this data is also held by central securities depositories (CSDs).

Respondents suggested a number of other actions that could be undertaken to enhance efficiency and resilience of the Australian bond and repo markets, including:

- utilisation of distributed ledger technology (DLT) to facilitate trading, settlement and custody of bonds and repos on a centralised electronic platform

5 A settlement chain is a chain of securities transactions among three or more counterparties involving the purchase and sale of a single security on a single date. A settlement circle is an extension of a settlement chain where the same security is due to pass between several participants on the same day without a clear start or end point.

- utilisation of all-to-all trading platforms
- development of solutions to address time zone and other issues between settlement venues in different locations, such as mandated settlement windows
- publication of anonymised and aggregated turnover data
- a formal consultation to evaluate the potential benefits and challenges of implementing pre- and post-trade reporting regimes for bonds and repos.

2.4 Location

2.4.1 Overseas operator providing clearing services to the Australian market

There was general agreement among respondents that bond and repo clearing could be safely provided by an overseas CCP. Preferences for an overseas or a domestic CCP varied across respondents. Many acknowledged that they would be comfortable with either an overseas or a domestic CCP if the CCP was robust, appropriately supervised and successful over the long-term.

An operator of domestic CS facilities suggested that implementing regulatory controls to mitigate risks to the Australian financial system may only be practical if a domestic location requirement is in place. It stated that a disruption at a bond and repo CCP would likely have broad market implications, including through links to other critical market infrastructure (see Section 2.3.1). Additionally, ASIC and the RBA would have greater powers to respond and support the continuity of services during a crisis at a domestic CCP.

Respondent feedback related to the location of a bond and repo CCP is summarised in Table 7.

Table 7: Feedback on the location of a prospective bond and repo CCP

In support of an overseas CCP	In support of a domestic CCP
• The Australian regulatory framework is already managing the risks associated with a systemically important overseas CCP.[6] • An overseas CCP may have greater capacity and a more diversified membership to manage a participant default. • An overseas CCP may have experience running bond and repo clearing services in other markets. • An overseas CCP may be more attractive to international participants, particularly those that are already a member of the CCP. • An overseas CCP may have a broader membership and product offering, which could increase netting benefits.	• A domestic CCP may have a better understanding of the Australian market and regulatory landscape. • A domestic CCP may be able to offer more responsive support during local disruptions. • Australian regulators would be better able to support continuity of service by a domestic CCP in a crisis. • An overseas CCP introduces additional risks and challenges related to cross-border operations (see Section 2.4.2).

6 For example, LCH SwapClear provides clearing for Australian dollar over-the-counter interest rate derivatives. For more information on SwapClear's operations in Australia, see RBA (2024), 'Payments System Board Annual Report', September.

2.4.2 Challenges and risks posed by overseas operator

Many respondents noted that a CCP with cross-border operations introduces a number of risks and challenges that must be managed carefully. This feedback is summarised in Table 8.

Table 8: Risks and challenges associated with overseas CCPs

Risks and challenges	Respondent views
An overseas CCP may be subject to multiple legal and regulatory frameworks	Some respondents raised concerns around the enforcement of legal rights in the event of a dispute. Some also noted that during a crisis, an overseas CCP could be subject to conflicting regulatory obligations.
Difficulties associated with different time zones	Respondents raised challenges related to: (i) the timing of margin runs; (ii) a mismatch in operating hours with domestic FMIs and Australian market conventions; and (iii) support arrangements that do not align with Australian hours and business days.
Contagion risks	Two respondents noted that an overseas CCP could expose the domestic market to instability by transmitting shocks originating in overseas markets. In turn, this could affect the functioning of Australian markets. Another respondent indicated that an overseas CCP may also have greater exposure to geopolitical risks.
Ensuring continuity of services for systemically important markets	Some respondents expressed concerns that Australian regulators would have fewer powers available to respond to a crisis at an overseas bond and repo CCP.

As noted above, respondents generally agreed that bond and repo clearing could be safely provided by an overseas CCP, provided that the additional risks and challenges were appropriately managed. Respondents suggested a number of potential mitigants, including:

- supervision of an overseas CCP against appropriate risk management standards, such as the PFMI and the Australian regulatory framework
- effective cross-border regulation, including cooperation arrangements with the home regulator and Australian participation in the CCP's crisis management group
- access to the RBA's standing facilities
- segregation of margin for different jurisdictions
- industry forums to discuss challenges faced by the CCP
- imposing additional conditions on the licensee.

3. Assessment and Response

3.1 Case for central clearing

The CFR agrees with respondents that the establishment of a CCP for Australian bond and repo markets has the potential to enhance the efficiency, stability and transparency of these markets. However, the relative costs and benefits of introducing bond and repo clearing will be dependent upon the service offering of the prospective CCP. The number of participants that use its services will also be an important factor.

The CFR agrees with respondent feedback that an unsuccessful CCP is unlikely to be beneficial for market development, efficiency, financial stability and the Australian economy.

The CFR does not consider there to be a compelling case for regulatory intervention to require central clearing in these markets at this time. Accordingly, the CFR is not considering the introduction of a clearing mandate.

It is ultimately a matter for the industry and any potential CCP entrant as to whether central clearing occurs. The CFR encourages a co-ordinated approach by the industry and prospective operators to introduce bond and repo clearing if the consensus is that the benefits outweigh the challenges and costs.

There are several challenges for the industry and prospective CCP operators to consider. For instance, a bond and repo CCP will likely require participation by many of the largest market participants to be successful.

Prospective operators will also need to carefully consider the timing for development and go-live of their services. There are significant programs of work already underway in the Australian financial system, including ASX's CHESS replacement project. The CFR agrees with respondents that the introduction of bond and repo clearing may be disruptive if it was to compete for the same resources as other industry-wide projects.

Respondents noted the importance of the Australian bond and repo markets to the Australian economy and financial system. A CCP servicing these markets would play a key role in the financial system. Any potential entrant would be subject to the licensing process and the Australian regulatory framework including supervision by ASIC and the RBA.

The CFR encourages prospective operators to engage with ASIC and the RBA during the development of a bond and repo clearing service.

3.2 Location of a prospective CCP

A CS facility may be granted an overseas CS facility licence if it meets certain criteria. These criteria include, but are not limited to, being authorised to operate in its home jurisdiction and subject to supervision that is sufficiently equivalent to the Australian regulatory regime.[7] Feedback from some respondents indicated that previous statements from the CFR agencies have been interpreted as a blanket 'domestic location requirement' for the central clearing of bond and repos in Australia. This interpretation implies that there would be no circumstances under which an overseas CS facility licence would be granted to a bond and repo CCP.

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7 In relation to the degree of protection from systemic risk and the level of fairness and effectiveness.

The CFR does not have a blanket domestic location requirement for the central clearing of bond and repos. The decision to grant (or not to grant) a CS facility licence will be determined on a case-by-case basis, having regard to all relevant facts and circumstances. This includes how the CCP will support the functioning of the Australian bond and repo markets through the provision of fair and effective services and promote financial stability.

3.3 Efficiency and resilience

Based on respondent feedback, the CFR's assessment is that Australian bond and repo markets are broadly efficient and resilient. However, the CFR acknowledges that market transparency and settlement chain issues have been identified as areas where efficiency could be enhanced.

The CFR agrees with respondent feedback that the introduction of a bond and repo CCP could improve efficiencies in these areas, but recognises that the CCP is unlikely to be a total solution. The precise efficiency benefits that might be realised would depend on the service offering and design of the CCP. For example, a CCP could mitigate the risks of settlement chains by: (i) mandating a time for settlement instruction submission; (ii) netting across settlement locations; (iii) running additional settlement batches when required; or (iv) providing a failed settlements cover service. A CCP could also provide secondary benefits to market transparency in the form of more reliable data collection. This could be used for benchmark calculation and enable greater visibility for regulators into market activity. However, a CCP would not, in isolation, provide a material uplift to broader transparency of the market. The CFR is also cognisant that having cleared and uncleared trades may introduce new inefficiencies into the market.

The CFR's view is that there are opportunities for improvement that the industry could explore without regulatory intervention. This could include the introduction of a bond and repo CCP. The CFR strongly encourages industry to work together to identify and implement initiatives designed to improve transparency and settlement efficiency. Over the longer term, the CFR will monitor developments in the Australian bond and repo markets to support competitiveness, growth, efficiency, public confidence and informed participation.