



13 November 2020

Bailie Yan
Senior Manager, Default Management and Recovery
ASX Limited
20 Bridge Street
SYDNEY NSW 2000

By email: bailie.yan@asx.com.au

Dear Bailie,

Consultation Paper: Default Management Rule Changes

HSBC Bank Australia Limited (HSBC)

We write to provide HSBC's feedback on the Consultation Paper issued by the ASX Limited in regard to Default Management Rule Changes and amendments to the ASX Clear (Futures) Operating Rules.

- 1) *Do you support ASXCLF in establishing a panel of prospective pre-approved auction participants (prior to an event of default) in order to expedite the auction process?*

HSBC supports this proposal with the caveat that non-defaulting members who are not invited to participate in the auction should have their default fund contribution mutualised after those non-defaulting members who are invited. We believe that this would align incentives between members.

- 2) *Do you have any suggestions on how to incentivise auction participants to bid in the auction?*

In exchange traded derivatives (ETD) HSBC recognises that the central clearing participant (CCP) may be able to close out a portfolio in the open market. In the event that this is not possible (e.g. market prices are unfavourable), we would suggest that the CCP maintains an option to initiate an auction, which would require mandatory participation. The auction model would have the juniorisation of the Default Fund as a financial incentive to participate appropriately.

- 3) *Noting that ASXCLF will determine auction pools with the intention of maximising the likelihood of a successful auction, do you support ASX's "all or nothing" approach?*

HSBC is supportive, however, our experience in fire drills with other CCPs has shown that an all or nothing format can restrict participation. For example, an auction pool comingles all Equity Futures, single stock, indices and Total Return Futures but a member may only trade single stock and indices. We would encourage the ASX to give consideration to a "dutch style auction" to maximise the probability of participation, permitting members to bid/offer for contracts they are active in only.

- 4) *Direction, size, tenor and regional characteristics of positions in a defaulter's portfolio have been referenced above as factors that may be considered by ASXCLF in the determination of an auction pool. Are there other key attributes that you consider important in determining how the portfolio should be split into appropriate auction pools?*

HSBC suggests that the ASX may consider the general structure of the market in the determination of an auction pool. For example, is there a concentration of positions with a few members or is the spread more even across the membership?

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- 5) *Do you support the proposed approach for expressing an auction bid (ie. that bids are to be expressed as a percentage of discount or premium to the last DSP)?*

HSBC's preference is to have an auction based on slippage in basis points rather than % of price discount.

- 6) *What other approach or approaches do you consider are appropriate for expressing an auction bid?*

HSBC's preference is to have an auction based on slippage in basis points rather than % of price discount.

- 7) *Do you support the proposed approach that contemplates that ASXCLF will provide information about the default portfolio directly to the panel of auction participants (including end-user clients)?*

HSBC is supportive on the assumption that non-disclosure agreements are in place.

- 8) *The proposed process is for Clearing Participants to approve their clients' bids prior to submitting to ASXCLF. Do you support this approach? Should Clearing Participants be allowed to pre-approve up to a certain price range and/or volume?*

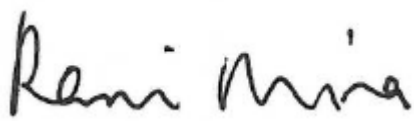
HSBC's view is that it is sensible for the Clearing Participant to have oversight of the client bid because they will be taking on the risk if they win the bid. We note that approval cannot be provided in advance based on the forecasts and is reviewed by the Clearing Participant during the submission process as conditions may change closer to a default scenario.

- 9) *Are there any reasons why ASX should not seek to ensure consistency of default management powers available to both ASXCL and ASXCLF?*

HSBC does not have any comments on this point.

Should the ASX have any questions please do not hesitate to contact our Regulatory Affairs team via phone (02) 9006 5648 or email regulatoryaffairs.au@hsbc.com.au.

Yours sincerely,



Rani Mina
Chief Compliance Officer
HSBC Bank Australia Limited