ISDA Safe, Efficient Markets

AFMA

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Dear Oliver,

Re: 8 January ISDA-AFMA Request Letter seeking Extension of Exemption 7 (Trade Identifiers) of ASIC Corporations (Derivative Transaction Reporting Exemption) Instrument 2015/844 – Additional Supporting Information

Thankyou to you and the Singaporean and Hong Kong regulators for a very productive call on 13 January. We hope that the call was of use to your teams in getting a better understanding of the reasons why we believe a single go-live would be favoured over a double implementation. On the call, we undertook to provide further supporting information in relation to our application, particularly around estimates of the costs that would be avoided, and savings realised, if the relief was extended. We are happy to provide this information below, based on responses provided to us by members.

Quantitative Estimates of Cost Savings (in Relevant Currencies)

System Implementation and Technology Costs

One respondent estimated these costs to be in the order of AUD 80,000, comprising:

- 2 additional weeks of development in systems such as Murex, Wall St and Reconciliations (each AUD 10,000, for a total of AUD 30,000);
- 2 additional weeks of development in SWIFT ($20,000);
- 2 additional weeks of BA work (AUD 10,000); and
- 4 weeks of testing (AUD 20,000).

One member indicated that the total technology and deployment cost was expected to be approximately USD 500,000. Another member stated an intention to implement a strategic solution in Q2 2016 to report UTIs generated by confirmation platforms at a cost of approximately GBP 200,000, and that extending the relief until the strategic solution is implemented will save the cost of implementing a tactical solution estimated at GBP 100,000, which would no longer be of use after the strategic solution is implemented. This means that the total costs which could be saved by this respondent are around GBP 300,000.

Given the Asia-Pacific region-wide engagement with regulators to date on the UTI, we also received a response broken down by jurisdiction. This respondent provided the following estimates:

- For Hong Kong reporting:
  - An IT cost saving of 50 man-days, around USD 40,000;
  - An operational cost saving of USD 30,000, in the areas of system planning, development and testing, plus an additional man-day for 2 months (totalling USD 10,000) to address post go-live issues.
- For Singapore reporting:
  - An IT cost saving of 80 man-days, around USD 50,000;
  - An operational cost saving of USD 40,000, in the areas of system planning, development and testing, plus an additional man-day for 2 months (totalling USD 10,000) to address post go-live issues.

<u>Personnel / Human Resource Cost Savings</u>

Respondents noted a multitude of different business lines and areas that would realise savings from extension of the relief. The following estimated savings were provided:

- IT: 1.5 FTE (AUD 192,000);
- Business analysis: 2.0 FTE (AUD 144,000);
- Training: AUD 40,000;
- Operations: Estimates ranged from AUD 30,000 to 192,000 or up to 30 man hours per week;
- Legal: Estimates ranged from AUD 10,000;
- Compliance: Estimates ranged from AUD 5,000 to 48,000; and
- Customer communications: AUD 10,000.

Total Quantitative Savings

Aggregating the three above areas, one respondent indicated that a total of approximately 14 man-months of effort would be saved, across the areas of IT, operations, compliance and SMEs for project implementation. In addition, there would be manual work to pair and share the UTI on a BAU basis due to deployment of interim solutions to meet a 1 February go-live date. This respondent estimated that an additional 3-4 FTEs would be needed across different teams to support this interim manual process. Another respondent also indicated a likely need for 3 FTEs over a 3-6 month period.

Two respondents indicated that total savings that could be realised would be in the order of AUD 200,000. Another respondent estimated total savings of GBP 500,000 in support costs, based on the assumption that additional support is needed for approximately 10 months until the CPMI-IOSCO recommendations are published and implemented.

Noting ASIC's intention to work closely with the Singaporean and Hong Kong regulators on any potential relief, one respondent estimated that a similar granting of relief under the Hong Kong reporting regime would result in a USD 80,000 saving, and a granting of relief under the Singaporean reporting regime would result in a USD 100,000 saving.

Qualitative Details of Efficiencies, Synergies and Impacts

We also consider it beneficial to outline some of the impacts of a 1 February go-live date which could be avoided, and other benefits and synergies.

A key consideration in the UTI issue is the maintenance of client relations. Industry initiatives to date around the UTI have entailed a significant degree of client outreach on arrangements for generation, consumption and matching; something which would necessarily have to increase in the lead-up to implementation and continue into the months following. Members are therefore conscious of the impact on their clients of a potential double outreach on 2 implementations, particularly at a time of substantial regulatory change which is resulting in a number of other client outreach efforts to update documentation and agreements, clarify responsibilities and consider legal issues. Members have highlighted the importance of maintaining a good customer rapport in this respect, which includes respecting client requests to minimise duplicated implementations.

Potentially, UTI consumption constraints and matching complexities could also result in a reduction in liquidity as clients avoid trades that may lead to noncompliance with the reporting requirements, a development that would negatively impact market participants.

Another key consideration highlighted to us in the responses received was the impact on training and education of staff on new UTI processes, and arrangements. Members raised the concern of greater levels of complexity in training documentation under a double implementation scenario, and associated impacts which could include the greater risk of errors in training, particularly at points of transition from one implementation to the next. The importance of ‘getting it right the first time’ was emphasised as not only sound business practice, but also an effective way to minimise the cost of error rectification.

Lastly, one member raised the concern that a 1 February implementation prior to the dissemination of global guidance from CPMI-IOSCO may lead to effects similar to those experienced in Europe when similar requirements took effect under EMIR, where matching success rates were impacted by an inability to match and pair the UTI. This resulted in increased disputes in confirmations, additional controls required to reconcile trade repository reports on a regular basis and middle office support to cancel and rebook or manually amend any reports following a dispute.

We hope that this information is useful, and would be happy to discuss further should you wish.

Yours faithfully,

Rishi Kapoor

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ISDA

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AFMA