

OTC Derivatives Central Clearing Consultation
Reserve Bank of Australia
GPO Box 3947
Sydney NSW 2001
Australia

29 August 2011

Dear Sir

Thank you for giving Barclays Capital the opportunity to submit our views regarding the establishment of a central clearing platform ("CCP") for over-the-counter ("OTC") derivatives in Australia.

We have contributed to, and are fully supportive of, separate industry submissions by ISDA, the Association for Financial Markets in Europe's Global Foreign Exchange Division and the Australian Financial Markets Association. This letter should be read as supplemental to those submissions.

We acknowledge that the increased use of CCPs is intended to result in greater safety, soundness and operational efficiencies in the OTC derivatives markets. However, much depends on how they are set up. CCPs have the potential to become sources of systemic risk and impaired markets.

Furthermore, we recognise that the rulemaking process on OTC derivatives clearing hasn't been finalized in the United States and Europe. Hence, it is important not to rush into arrangements whose effects and reach are not fully understood.

With these issues in mind we wish to highlight the following:

- 1 international impact and extra-territorial implications;
- 2 risk of market fragmentation; and
- 3 cost factors.

1 Extra-territoriality

Given the global nature of the OTC derivatives markets, particular consideration needs to be paid to the following; coordination with foreign regulators, consistency of regulation internationally and the avoidance of unintended consequences such as the extra-territorial application.

2 Market fragmentation

An excessive proliferation of CCPs carries the risk of fragmenting both the market and regulatory oversight. Establishing a local CCP to clear OTC products that are already cleared in other jurisdictions could potentially have an adverse impact on volumes and liquidity.

As things stand at present the mitigating effect of interoperability cannot be counted on, as the various challenges to this approach (regulatory, legal, operational, etc) remain formidable.

3 Economic cost factors

There are substantial costs involved in the implementation and on-going operation of a CCP. To be economically viable, these costs should ideally be less than the marginal benefit accrued from lower counterparty risk and better supervisory architecture for the OTC market.

We appreciate the opportunity you have given us to share our views on the establishment of a local CCP in Australia. Please do let us know if you wish to discuss the above or any other issues further. We would be happy to meet with you at your convenience.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'L Wilkins', with a long horizontal stroke extending to the right.

Lloyd Wilkins
Chief Operating Officer
Barclays Capital