

1 August 2014

Michael Lim
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Financial Systems and Services Division
The Treasury
Langton Crescent
PARKES ACT 2600

Email: financialmarkets@treasury.gov.au

Dear Mr Lim

Treasury Proposals Paper – AUD-IRD Central Clearing Mandate

The privately owned energy companies listed (PGG) welcome the opportunity to respond to Treasury's Proposals Paper (the Paper). The PGG has been appreciative of Treasury's approach to the G20 OTC proposals in general. Treasury has shown a keen interest in engaging with non-financial entities to better understand the impact that these reforms may have on entities outside of the banking and financial institution sector.

The PGG represents a group of privately owned Australian energy companies, many of whom are also electricity and gas retailers. These entities, like many non-financial entities, enter into OTC derivatives to manage their commercial risks.

In summary, the PGG supports the proposal to limit the application of mandatory central clearing of Australian denominated interest rate derivatives to large financial institutions with significant cross border activity (internationally active dealers). The following are our views on the issues raised in the Paper.

Mandatory Central Clearing of Australian Denominated Interest Rate Derivatives

The PGG supports the proposal to restrict the application of mandatory central clearing of this asset class to internationally active dealers. It agrees with Treasury that there is little value in extending this proposal to entities that enter into derivatives to manage their commercial risk (End Users). As outlined in our submission to Treasury's Proposals Paper dated April 2014, the intended benefits of central clearing: substituted compliance, netting and reduction of counterparty risk do not apply to End Users. Moreover the cash flow risks, IT and compliance costs that would be incurred in complying with this proposal significantly outweigh any benefits obtained.

Definition of 'Internationally Active Dealers'

We support Option A as an appropriate definition of 'internationally active dealers'. This would capture financial entities who engage in significant cross border activity.

Mandatory Central Clearing in Other Markets

We note that extending the scope of these reforms to other asset classes continues to be under review. We reiterate that extending these reforms to other classes of derivative markets, in particular the commodities markets, may have adverse implications. Commodity market participants rely on bespoke products to hedge their commercial risks. However,

AGL Energy

Alinta Energy

Energy Australia

Energy Brix

GDF SUEZ
Australian Energy

InterGen

Origin Energy

QGC

mandatory central clearing only facilitates the trading of standard vanilla products. Therefore extending this proposal to commodity markets will make it harder for market participants to manage their risks, which may have serious impacts on these markets. Furthermore, the additional cash flow pressures and capital requirements associated with mandatory central clearing may hinder the growth of emerging markets such as the gas derivative market.

Trade Reporting

Just as mandatory central clearing is limited to internationally active dealers, we consider that mandatory trade reporting should be treated in a similar way. The costs and complexity of trade reporting has become more apparent from the experience of the Phase 1 and 2 entities already engaged in trade reporting. Therefore, Australian Financial Service Licence (AFSL) holders who engage in relatively smaller volumes of derivative market activity compared to internationally active dealers should be exempt from these costly obligations. Like End Users, many AFSL holders enter into derivatives purely to hedge their commercial risks, such as those operating in commodity derivative markets. Many of these commodity derivative markets are still in development. Hence, there is a legitimate concern that the imposition of these significant compliance costs will hinder the growth of these developing markets.

If you have any queries about the submission or require further information, please contact Josynta Singh at jsingh@agl.com.au or on 03 8633 6628.

Yours sincerely,
Chris Deague



Chairman, Private Generators Group
On behalf of the listed companies