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May 10, 2016

Mr. Pat Brennan
General Manager, Policy Development
Policy and Advice Division
Australian Prudential Regulation Authority

Via electronic submission to: policydevelopment@apra.gov.au

Consultation on Margining and Risk Mitigation for Non-Centrally Cleared Derivatives

Dear Sir or Madam:

State Street Corporation ("State Street") appreciates the opportunity to comment on the consultation paper issued by the Australian Prudential Regulation Authority ("APRA") on margining and risk mitigation for non-centrally cleared derivatives ("Margin Standards").

Headquartered in Boston, Massachusetts, State Street specializes in providing institutional investors with investment servicing, investment management and investment research and trading. With USD 27 trillion in assets under custody and administration and USD 2 trillion in assets under management, State Street operates in 29 countries and in more than 100 geographic markets.[1] Since our entry into the Asia-Pacific region over 30 years ago, today we have nearly 4,000 employees in eleven jurisdictions in Australia, Brunei, China, Hong Kong, India, Japan, Malaysia, Singapore, South Korea, Taiwan and Thailand, servicing our clients throughout the region. Hong Kong serves as our regional headquarters in Asia-Pacific.

The Sydney Branch of State Street Bank and Trust (SSBT) Company provides Global Markets (GM) and other services. State Street Australia Limited (SSAL) provides Global Services (GS)

[1] As of March 31, 2016.

business. SSAL (GS) in Sydney covers trustee, custody, fund accounting, transfer agency, performance analytics, investment compliance monitoring, and middle office outsourcing (to institutional investors). SSBT GM services support global link, securities finance, enhanced custody, global treasury and foreign exchange (FX) sales for the following products including spot, forwards, and Non-Deliverable Forwards and FX Options.

State Street strongly supports the exception for physically settled FX forwards and swaps in the draft Margin Standards from initial margin requirements. However, we also believe that given the current market structure surrounding physically settled FX forwards and swaps, these products should also be exempt from variation margin requirements as well.

Foreign exchange forwards and swaps are distinctly different than other types of swaps, as they involve the straightforward exchange of currencies on fixed and pre-determined terms in a highly transparent and liquid global marketplace. Price information is readily available to market participants, and the foreign exchange markets have performed well through a series of market disruptions, including the 2008 financial crisis. Furthermore, the vast majority of foreign exchange forwards and swaps are short-dated, resulting in minimal credit risk between the counterparties. While settlement risk is an important consideration with foreign exchange swaps and forwards, it has largely been addressed, at the urging of regulators, through the creation of the CLS Bank International. The CLS Bank settles nearly 90 percent of all inter-dealer FX trades, and eliminates nearly all settlement risk to CLS Bank participants. As a result, foreign exchange forwards and swaps do not significantly contribute to the interconnectedness or systemic risk concerns the margin rules are intended to address.

The application of mandatory margin rules to foreign exchange forwards and swaps could, however, have significant negative effects in Australia. Given the global nature of the foreign exchange markets, with numerous trading centers around the world, applying mandatory margin rules could increase the incentive to move these transactions offshore, reducing the ability of the APRA to oversee the market. In addition foreign exchange forwards and swaps are a critical source of funding and liquidity in the global marketplace, and foreign exchange markets are critical to the global payments system, supporting all cross-border trade and investment. Applying unnecessary margin rules to foreign exchange forwards and swaps would undermine the ability of foreign exchange markets to support this critical global activity. Finally, it is important to ensure internationally consistency on these mandatory margin rules; divergence among different regulatory jurisdictions not only creates implementation concerns but also increases the risk of regulatory arbitrage in different jurisdictions. It is important that the APRA align its margin rules ensuring consistency with the final U.S., Canada, and Japan rules (also expected to be adopted by Singapore), which recognize the differences associated with physically settled foreign exchange forwards and swaps, exempting them from margin requirements.

State Street appreciates the opportunity to comment on the APRA's draft Margin Standards. As noted above, we strongly support the exception of physically settled foreign exchange swaps and forwards from initial margin requirements, and believe this exception should extended to include variation margin. Please feel free to contact Steven X. Chan (tel: ; email) should you wish to discuss State Street's submission in further detail.

Sincerely,

Chris Taylor
General Branch Manager
Senior Vice President

Steven X. Chan
Head of Regulatory, Industry and Government Affairs, Asia Pacific