

13 December 2022

OPEN LETTER TO MARKET PARTICIPANTS

Update on off-market hedge information request findings and next steps

The Authority released an open letter with a voluntary off-market information request on 31 October 2022¹ and received responses from thirteen participants.

The Authority thanks those who contributed, and acknowledges the effort required by some participants to provide the information requested.

The information gathered consisted of request for proposals (RFPs) and signed International Swaps and Derivatives Association (ISDA) master agreements. Although the sample set of RFPs gathered is small and may not be representative of the entire over-the-counter (OTC) market, some findings from the information gathered are provided below:

RFPs

- Participants appear to have a mixed experience in receiving timely responses for baseload RFPs, including responses for locations outside of Otahuhu and Benmore. In addition, participants experienced relatively greater difficulty in receiving responses for non-baseload contracts, either receiving no response or a response for a different location.
- OTC market behaviour and activity did not appear to change significantly as the Australian Securities Exchange (ASX) clearing issue unfolded. However, there are instances of behavioural change from participants that is beneficial for the OTC market. This behavioural change involved improved responses to RFPs and the offering of volume into the OTC market via sell offers at prices more closely following the futures exchange forward price curve.

¹ Reference: <https://www.ea.govt.nz/development/work-programme/risk-management/hedge-market-development/correspondence/open-voluntary-request-for-off-market-hedge-information/>

ISDA master agreements

- Participants indicated on average eight weeks are required to negotiate and sign an ISDA master agreement between two parties, with negotiation time ranging from less than a week to years, and a median of four weeks. Agreements that required months or years to negotiate were rare and not a common occurrence.
- No widespread barriers were observed by participants when negotiating ISDA master agreements with other parties.

The Authority acknowledges the importance of the OTC market, now that access to ASX contracts is restricted for some market participants.

Following this exercise and after discussions with affected parties the Authority is considering the merits of facilitating an industry-led working group to consider whether the efficiency of the market could be improved, and the benefits of making more transparent appropriate expectations of the performance of the market and its participants.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Tom Georg', written in a cursive style.

Tom Georg
Acting General Manager, Market Policy