

ASX 24 Bond Futures Delinking

Bond Futures Survey Feedback
October 2024

ASX 24 Bond Futures Delinking

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ASX 24 Bond Futures Delinking

Executive Summary

ASX has surveyed the market on the proposal to support different tick increments on the outright markets and the calendar spreads (roll) for the 3, 5, 10 and 20 Year Treasury Bond Futures.



ASX recently surveyed the market to gather feedback on the proposal to delink the bond futures contracts outright market from the calendar spread market during the week of the roll.

This document contains the survey results and a summary of the feedback received from the market.

Background:

Feedback received prior to the survey suggested that the order book liquidity in the outright markets for the Treasury Bond Futures deteriorates in the 5 days preceding a quarterly roll, affecting the tradability of these contracts for hedging and speculative activity.

Customer feedback shows ongoing support for maintaining the roll (calendar spread) ticks at the current roll period settings. With the narrower tick increments participants can roll their open positions in a more cost-effective manner.

ASX surveyed the market on the following proposed changes:

1. Delink the Bond Futures contracts outright market from the calendar spread market during the week of the roll.
2. Keep the tick increments in the outright contracts during the roll period at the non-roll (wider) increments, while supporting the narrower tick increments during the roll period in the calendar spreads (roll) market only.

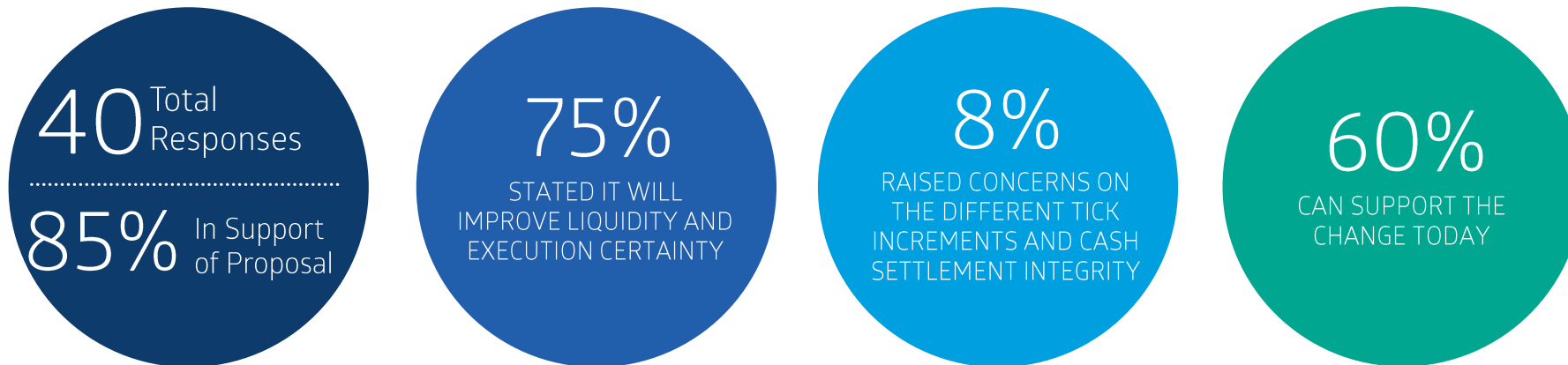
The daily and expiry settlement prices for the bond futures contracts will be rounded to the same increment as the outright contracts. EFP and Block Trades can only be executed at the outright minimum tick increment.

ASX will finalise its decision during Q4 2024. If ASX decides to implement the proposed changes, this will take place during the first half of 2025, subject to the successful completion of ASX testing and regulatory clearance.

ASX 24 Bond Futures Delinking

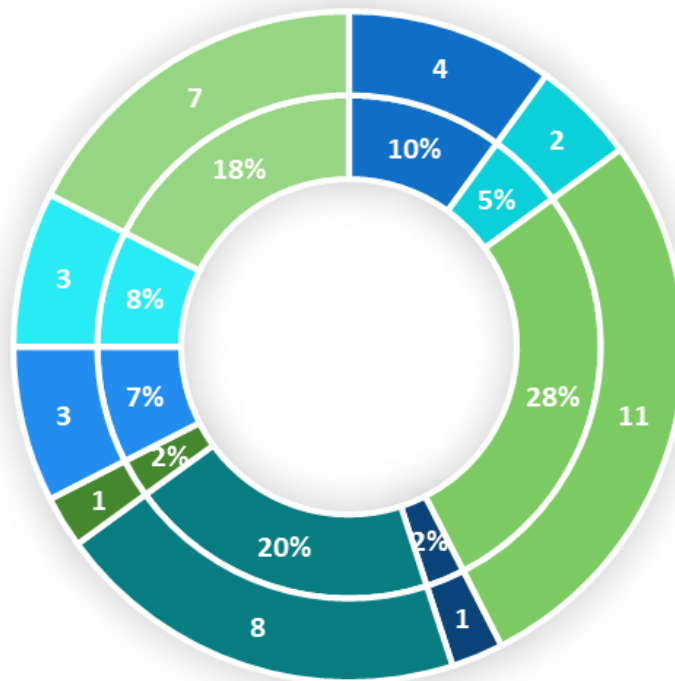
Overview of survey results

- Qualtrics survey published 23 July 2024.
- 40 responses from a broad range of users of the ASX 24 Bond Futures contract across the market



ASX 24 Bond Futures Delinking – survey results

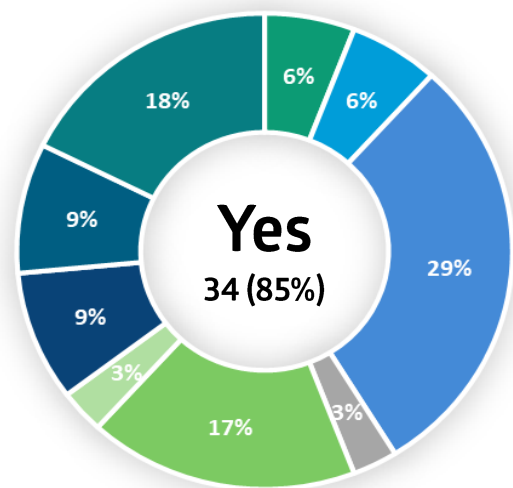
Breakdown of respondent type



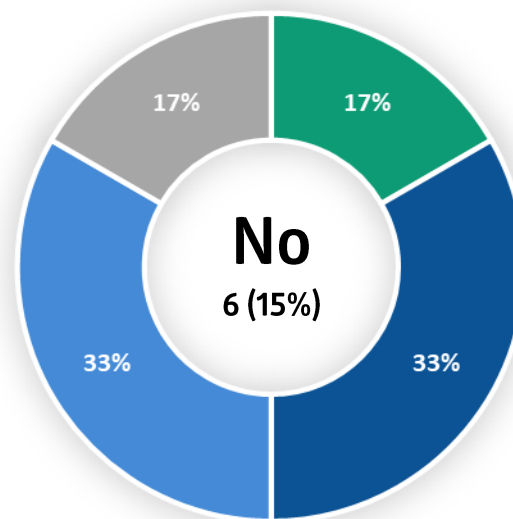
- Asset Manager
- Bank - Balance sheet
- Hedge Fund / CTA
- ASX 24 Clearing Participant
- Bank - Markets Division
- Inter-dealer broker
- ASX 24 Trading Participant
- Government and Semi-government agencies
- Proprietary Trading Firm

ASX 24 Bond Futures Delinking – survey results

Do you support the proposal to delink the outright and calendar spread during the roll?



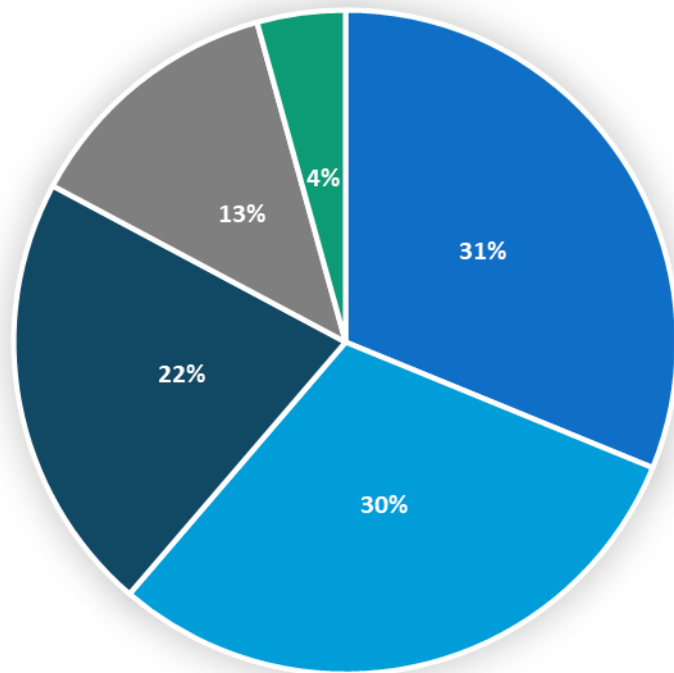
- Asset Manager
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- ASX 24 Trading Participant
- Asset Manager
- Bank - Markets Division
- Proprietary Trading Firm

ASX 24 Bond Futures Delinking – survey results

Reason why respondents are supportive of the change



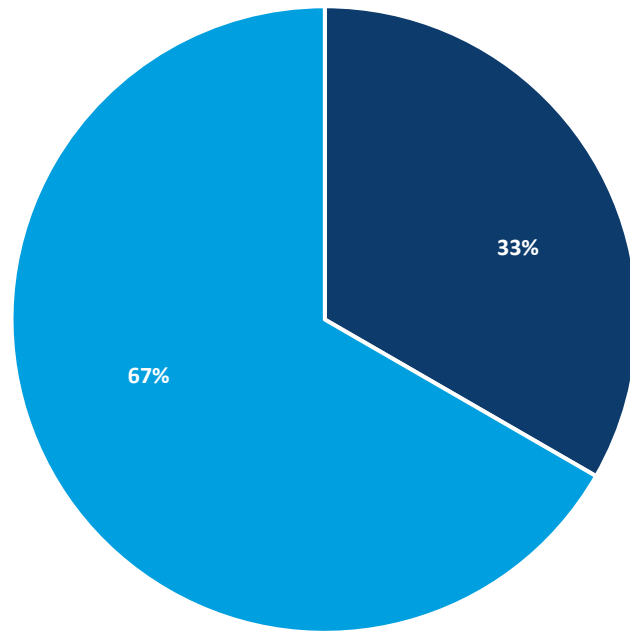
- Will improve on-screen liquidity in the outright contracts
- Will improve execution certainty in the outright contracts
- Will reduce execution slippage in the outright contracts
- Aligns with other global Exchanges
- Other (please specify)

Other reasons given:

- Avoid market disruption
- Supports trading throughout the year
- Will improve visible liquidity, but true liquidity will be unchanged
- Seen as a positive step towards reverting roll ticks to wider increments

ASX 24 Bond Futures Delinking - survey results

Reason why respondents are not supportive of the change



■ There will be insignificant change in outright market activity as a result of the delinking

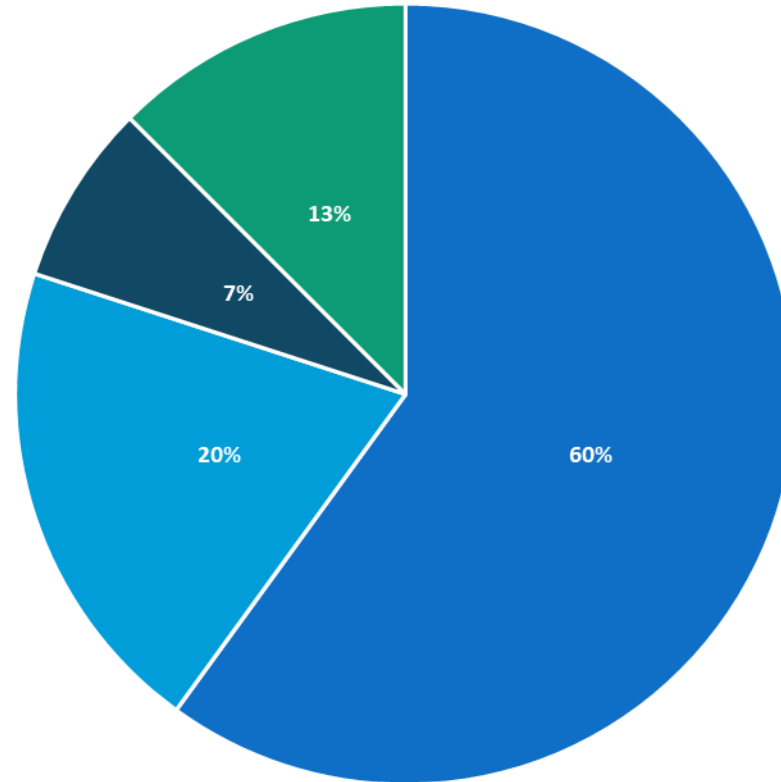
■ Other (please specify)

Other reasons given:

- Impacts integrity of cash settlement as not able to unwind exposure via legs at the same increment as the rolls
- Supports delinking but not differentiated tick increments
- Preference for smaller tick increments throughout the lifetime of the contracts, not just in the roll period
- Will reduce liquidity in the roll

ASX 24 Bond Futures Delinking - survey results

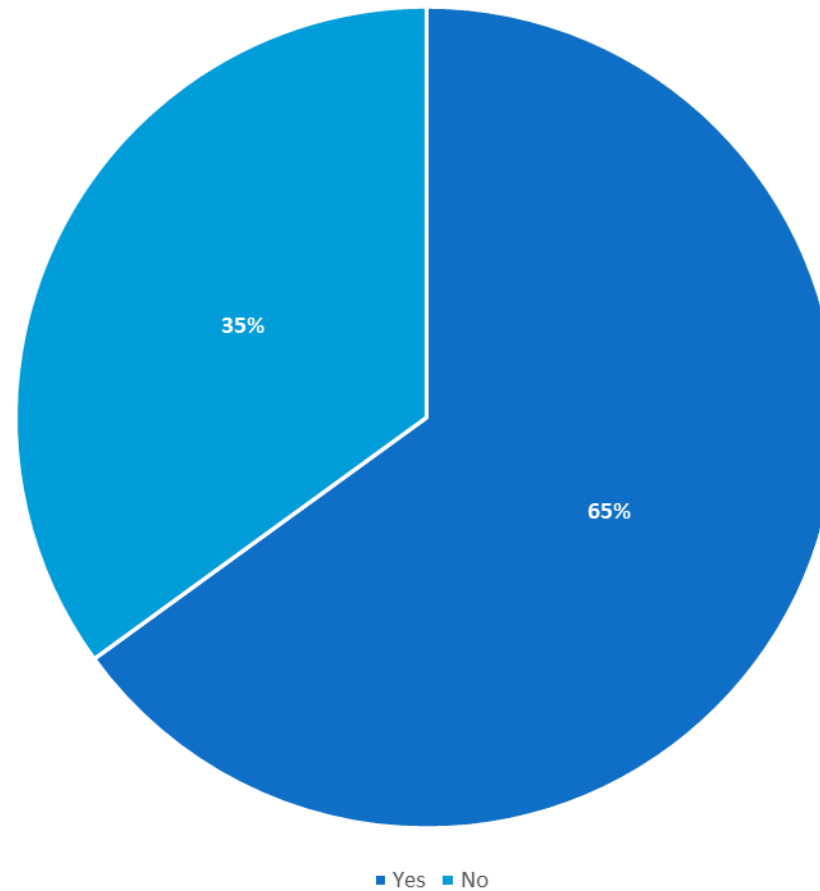
How long participants need for development and testing



- We can support the change today
- 1 month to do development and / or testing
- 3 months to do development and / or testing
- Longer than 3 months to do development and / or testing

ASX 24 Bond Futures Delinking - survey results

Do you support ASX exploring delinking the SPI roll with market participants?



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Additional feedback

In addition to the survey response ASX received bi-lateral feedback on the proposed delinking. Summary of key themes and feedback from bi-lateral engagement:

Potential impact on arbitrage activity

- Delinking may introduce arbitrage opportunities, however magnitude of volume uplift is unknown
- Arbitrage opportunities created with delinking with different tick increments will remove liquidity from roll.

Changes to liquidity and activity

- Improved liquidity in outright not guaranteed, this change may reduce roll liquidity and increase cost of cash settlement
- ASX should prioritise keeping the integrity of contract intact by setting the roll increments and outright increments the same
- Roll liquidity providers may cease activity due to the differential in the increments
- Reduction in outright liquidity as the result of the reduced tick increment during the roll period is detrimental to all market participants. The market is efficient enough that it does not need the implieds to keep the products in line with each other. The unknown will be the impact of the tick increment differential between the outright and the calendar spreads.

Optimal tick size

- Smaller tick sizes don't reduce liquidity. Wider tick sizes increases transaction cost, such that no one wants to cross the spread. Smaller tick sizes lower the cost of trading and traders are more willing to cross the spread

¹¹ Consider having the calendar spreads at a narrower tick increment permanently.

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Next steps

Interest Rate Working Group

ASX will hold the next meeting of the Interest Rate Working Group on 14 October to provide the market with further opportunity to discuss the proposal to delink the bond futures roll and outright markets during the week of the roll.

Please contact Jennifer.Eason@asx.com.au if you would like to join the working group or would like to further discuss the proposed changes.

Bilateral conversations

We will continue to hold bi-lateral conversations with market participants. If you would like to discuss the results of the survey and the proposed changes, please email rates@asx.com.au or your sales representative to arrange a meeting.

ASX would like to thank all respondents to the survey and to those who provided additional feedback

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