A Second Clearer: A Resilience Measure and a Member-cost Decision

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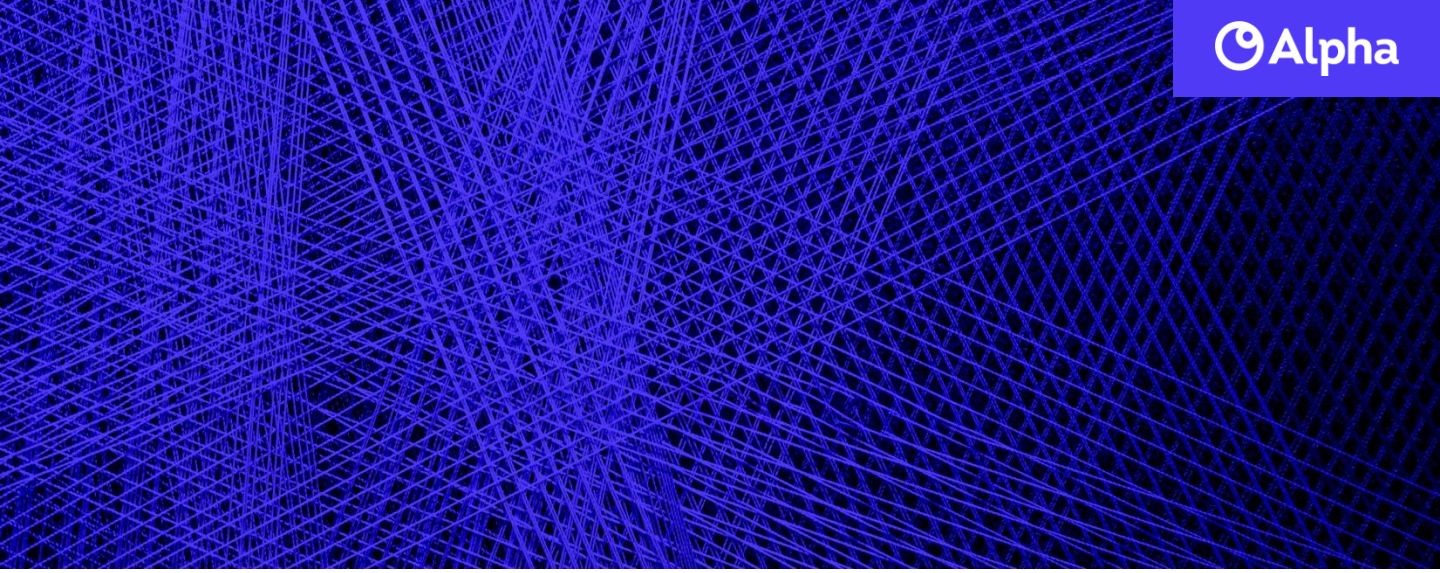
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Introduction

Superannuation funds use OTC derivatives and exchange-traded futures to hedge risk, manage exposures and implement investment strategies. Yet the route from trade to clearing can depend heavily on one clearing bank.

That concentration deserves a closer look. A second clearer may give a fund a practical alternative when its primary route is unavailable, constrained or no longer economically attractive. But appointing another provider is only the beginning. The real questions are whether the fund can route the right trades there, whether it can do so quickly, and whether that route makes sense over the life of the portfolio.





First, be clear about what is being routed

"Clearing" is often used as shorthand for several separate steps.

For exchange-traded futures, the fund or investment manager decides on a hedge, chooses an execution broker and executes on the relevant exchange. The resulting position is cleared through a clearing member to a central counterparty, or CCP.

For a centrally cleared OTC swap, the fund executes with a dealer, and the trade is submitted to a CCP through a clearing member. The execution dealer and clearing member may be different firms.

So, a second clearer does not necessarily mean a second execution venue or a second CCP. It may provide a separate route into the same CCP that can reduce reliance on one intermediary while preserving access to the same clearing service. Alternatively, a fund might use a different CCP for some products, but that can change netting and margin economics.

For a fund assessing large global clearing banks, including providers such as Citi and JPMorgan, the comparison needs to be specific. Which legal entity would face the fund? Which CCP and clearing service would be used? Which products, currencies, account structures and jurisdictions are covered? The answer may differ between OTC interest rate derivatives, credit derivatives and listed futures.

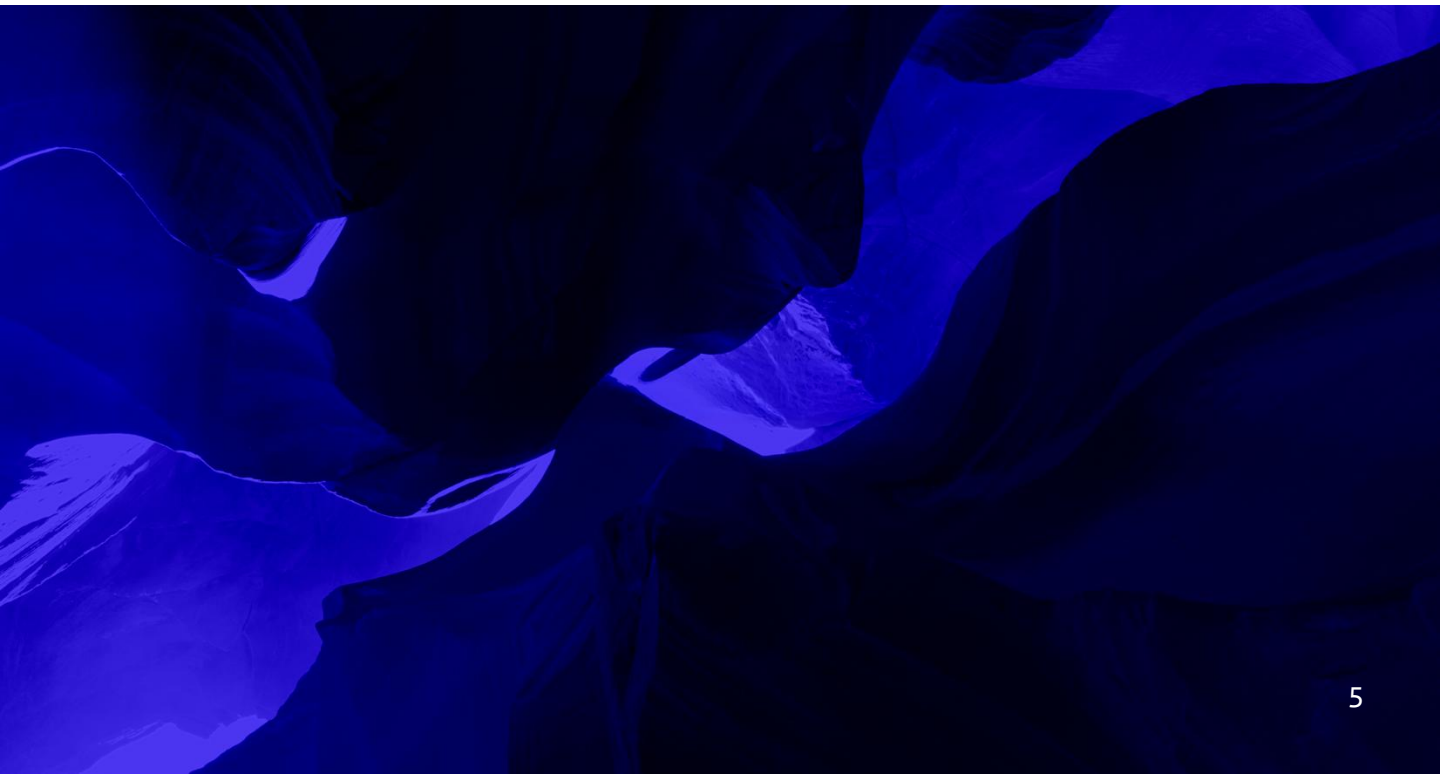
The lowest quoted fee may not be the lowest-cost route

A trade should be assessed on its full lifecycle economics, not just the execution commission or clearing fee. A practical comparison would include:

- Execution price, bid–offer spread, slippage and brokerage;
- Clearing, exchange, give-up and account fees;
- Initial margin and variation margin requirements;
- The cost of funding cash margin and the treatment of non-cash collateral;
- Collateral eligibility, haircuts, concentration limits and substitution costs;
- Netting benefits across products, accounts, currencies and maturities;
- Operational costs for trade capture, allocation, affirmation, reconciliation and dispute management; and
- The cost and time required to close, transfer or replace positions if a route becomes unavailable.

An illustrative futures example shows why; suppose one route saves $1 per contract across 10,000 contracts: $10,000 in direct cost. If it also requires an average additional $5 million in cash margin for a year, a 5% funding assumption implies $250,000 in funding cost. This is deliberately simplified: actual results depend on the portfolio, collateral, rates, margin model and holding period. But it demonstrates why the cheapest ticket can be more expensive over time.

For OTC swaps, the same principle applies, with an extra complication: splitting activity between clearing members or CCPs can reduce portfolio netting. If positions that previously offset each other are separated, the fund may face higher initial margin or less efficient use of collateral. In other circumstances, a second route could improve pricing, collateral access or the fund's ability to manage capacity. The answer depends on the portfolio and the legal and operational structure—not just the provider's price sheet.



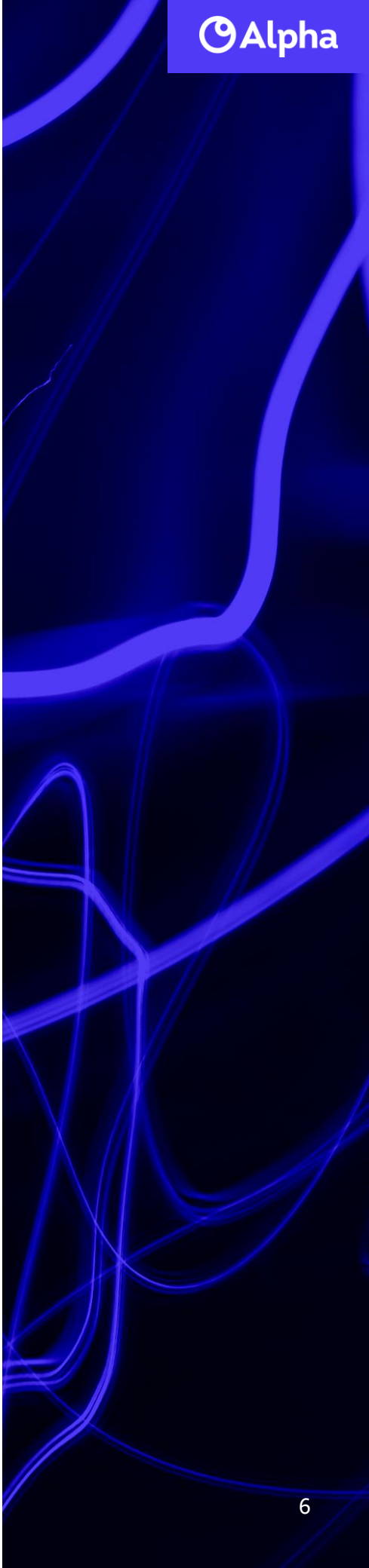
A second clearer only helps if it can be used

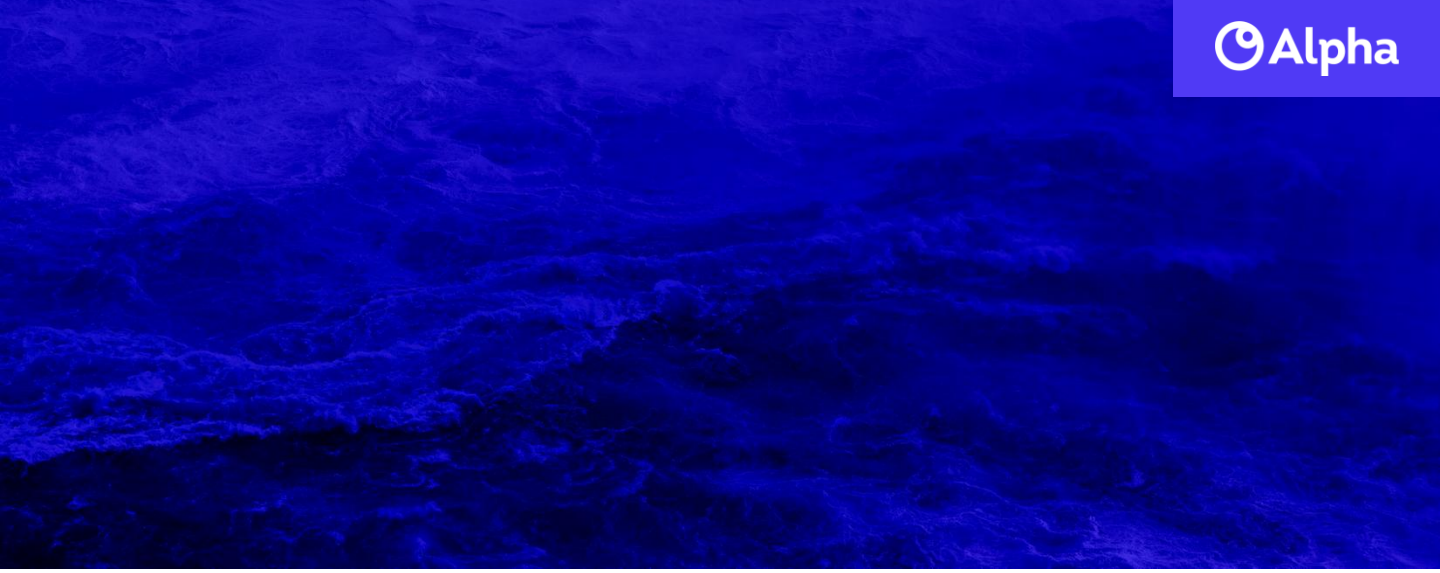
The value of an alternative route depends on practical readiness. A fund should establish, product by product:

- Which futures and OTC products the second clearer will accept;
- Which CCPs, currencies, markets and account structures are supported;
- Whether the fund has executed the necessary clearing, give-up, client-clearing and collateral documents;
- Whether limits, credit approvals and onboarding are complete;
- How trades will be allocated, affirmed and reconciled;
- How margin calls will be received, funded and met, including intraday calls;
- Whether eligible collateral can be delivered through the required accounts and settlement arrangements; and
- Who has authority to redirect a trade, at what point, and under what trigger.

A name in a contingency plan is not a functioning contingency. If the fund has not tested connectivity, account setup, collateral movement, approvals and operating procedures, the second route may not be available when needed.

Portability also needs careful treatment. The ability to move positions after a clearing-member default depends on the CCP's rules, the client account structure, the fund's contractual arrangements with an alternate clearer, and whether the alternate has capacity and is willing to accept the positions. CPMI-IOSCO guidance identifies access and portability as practical issues in client clearing. It is not safe to assume that positions and collateral will transfer automatically simply because a second bank has been appointed.





CPS 230 is a foundation, not a routing strategy

CPS 230 requires APRA-regulated entities to manage operational risks, maintain critical operations through disruption and assess risks arising from reliance on service providers, including concentration risk. APRA's guidance expects entities to identify critical operations, set disruption tolerances and understand the resources and providers needed to deliver those operations.

That is an important baseline. By itself, it does not tell a super fund how to route a particular futures or OTC trade, how to compare clearing routes over the life of a position, or whether a secondary clearer is operationally ready to take activity. Those decisions need to be translated into the fund's own investment, operational and service-provider arrangements.

There is also an important distinction in the 2026 CPS 230 amendments: APRA recognizes clearing and settlement facility operators as a category of non-traditional service provider and provides limited relief from specified contractual requirements where compliance is not practicable. That reflects the reality that a CCP may operate under standard, non-negotiable rules. It does not remove the need for a fund to understand its reliance on clearing arrangements or manage its own operational resilience.

The regulatory framework can establish the expectation to manage risk. The fund still needs to decide what resilience means for its trading and clearing model.

What a useful routing framework looks like

A robust framework would combine investment and operational information rather than rely on a static provider ranking. Before a trade is executed, the fund or its manager should be able to see:

1 The permitted routes

Which execution, clearing-member and CCP combinations are approved for the product and fund account.

2 The portfolio effect

How the trade changes netting, initial margin, variation margin, collateral use and liquidity needs under each route.

3 The total expected cost

Execution and clearing charges, funding, collateral haircuts, operational costs and the cost of maintaining a separate relationship.

4 The capacity and resilience position

Current limits, onboarding status, service availability and concentration or dependency concerns.

5 The decision record

Why the selected route was appropriate for that trade and portfolio at that time.

The framework should also make clear when the second route is used. It could be chosen routinely for eligible products where the total economics are better; used to manage concentration or capacity; or maintained as a contingency for a defined disruption. Those are different operating models, with different cost and readiness requirements.

Testing is essential - a meaningful test should go beyond confirming that a login works. It should simulate a realistic disruption and follow the trade through decision to reroute, execution, clearing acceptance, allocation, collateral availability, margin processing, reconciliation and reporting. If the plan depends on transferring existing positions, the fund should test the legal and operational steps for portability as well as the process for new trades.

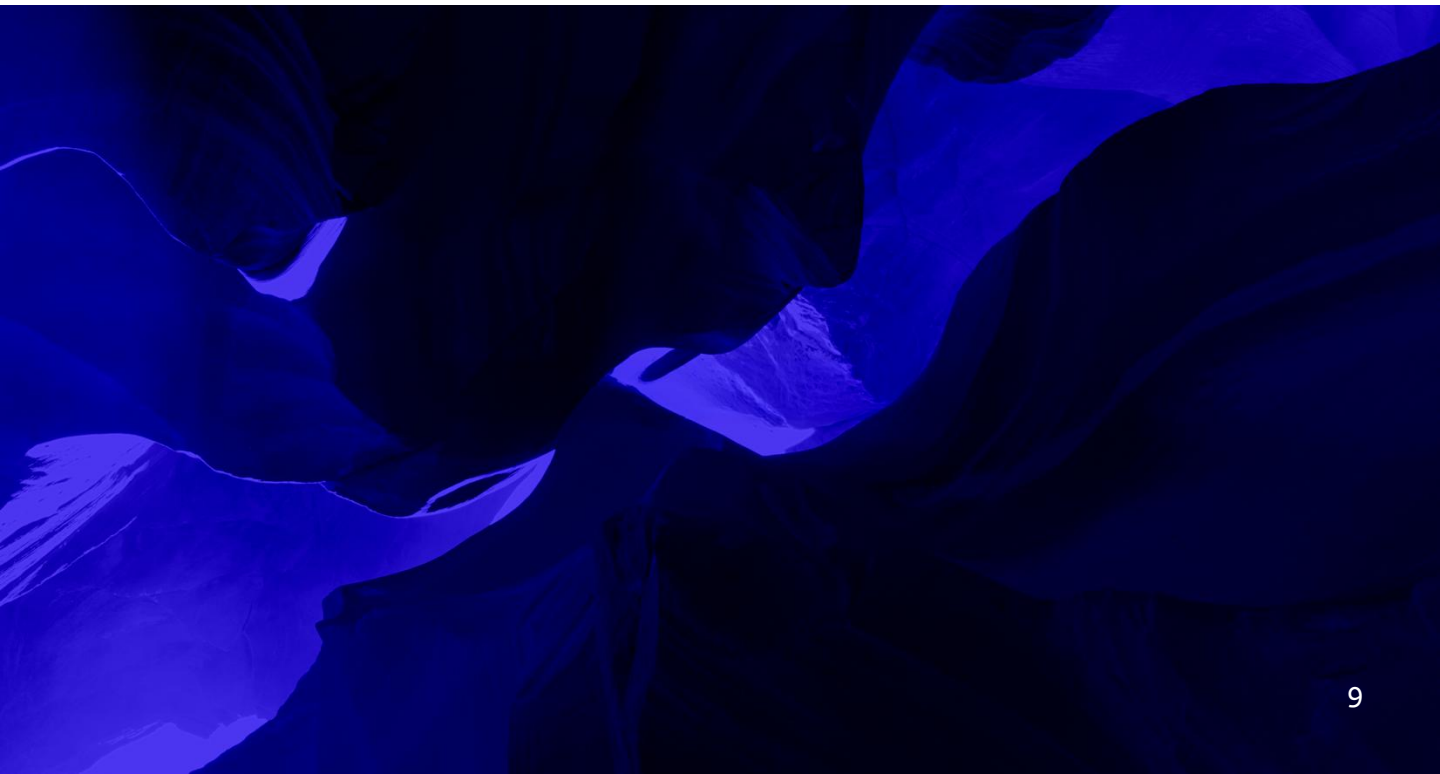
The member-interest test

For superannuation funds, the case for a second clearer should be assessed against the interests of members, not treated as a procurement exercise or a box-ticking response to regulation. A second relationship has costs: onboarding, legal documentation, technology, testing, oversight and potentially higher margin if activity is split. These costs may be justified by better execution, improved capacity, more efficient collateral use or a credible alternative during disruption. They may not be justified if the route cannot be activated, offers no meaningful diversification, or creates more cost than benefit.

The right question is not simply, "Which bank has the lowest fee?" It is:

For this trade, in this portfolio, which route delivers an appropriate execution outcome at the lowest sustainable lifecycle cost – and can the fund continue to use or redirect that route when circumstances change?

That is where execution, operational resilience and member outcomes meet. A second clearer is valuable when the fund understands the trade-offs, can evidence its routing decisions and has tested that the alternative works in practice.



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Ajay brings over 20 years of experience in global capital markets, specializing in derivatives, margin and collateral, treasury, and post-trade transformation. He leads complex regulatory, operating model and technology programs for financial institutions across major global markets. Ajay combines deep market expertise with practical delivery to strengthen governance, improve efficiency and build scalable operations.



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