ASSOCIATION OF RUSSIAN BANKS
(Moscow, Russia)
URL: http://arb.ru/

December 13, 2013

Committee on Payment and Settlement Systems
Email: cpss@bis.org

Dear Sirs,

Committee on Payment and Settlement Systems
Consultative Report «Public quantitative disclosure standards for central counterparties»

On behalf of the Association of Russian Banks (ARB), and particularly the Committee on standards of Basel II and Risk Management, we would like to thank the Committee on Payment and Settlement Systems for the opportunity to deliver our opinion on the Consultative Report «Public quantitative disclosure standards for central counterparties» published by the Committee on Payment and Settlement Systems on October 15, 2013 at http://www.bis.org/publ/cpss114.htm.

We hope our comments would be of use for further development of the prudent international regulatory framework and stimulate its implementation.

We would like to thank Alejandro Garcia-Monterde and Oksana Zhdanova, members of the Committee on standards of Basel II and Risk Management, for their work in preparing these comments enclosed (annex on 11 pages).

In case of further questions, please, do not hesitate to get in touch with us through email (z.adam@arb.ru or arb@arb.ru), telephone (+7.495.690.30.00) or fax (+7.495.690.31.38).

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№	Disclosure	Frequency and type of data	Consultation question	Consultation Suggestions
4,3	State whether the CCP is subject to a minimum "Cover 1" or "Cover 2" requirement in relation to total pre-funded default resources.		**Consultation questions:** How could this information best be presented to provide meaningful information across CCPs while avoiding disproportionate reporting burden (e.g. what is the case for disclosing further information on stress testing methods)?	Utilizing a conservative principle: The counterparties could be divided according to a Value at Risk hierarchy where those counterparties with the underlying assets which are historically volatile. Those with higher volatility compared to the core financial instruments should provide more detailed stress testing reporting
	For each clearing service, what is the estimated largest aggregate credit exposure (in excess of initial margin) that would be caused by the default of any single participant and its affiliates in extreme but plausible market conditions?	Peak day amount in quarter and average over quarter		
	Report the number of business days, if any, on which the above amount exceeded actual pre-funded default resources and by how much.	No. Of days in quarter, and amount of excess on each day	**Consultation question:** What are the pros and cons of seeking disclosures with regard to the estimated largest credit exposures to both the single largest and two largest participants (plus affiliates), from all CCPs irrespective of whether they are subject to a cover 1 or a cover 2 regulatory requirement?	**PROS:** Better capital allocation planning to anticipate larger losses and provision more adequately for losses **CONS:** It does not necessarily follow that the larger exposures will be more likely to default only that the impact will be greater. Thus it could distract portfolio managers from other deals should be
	For each clearing service, what is the estimated largest aggregate credit exposure (in excess of initial margin) that would be caused by the default of any two participants and their affiliates in extreme but plausible market conditions?	Peak day amount in quarter and average over quarter		
	Report the number of business days if any, on which the above amount exceeded actual pre-funded default resources and by how much.			

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				aggregated according to similar volatility indicators based on common or complimentary underlying assets
5. Collateral (Principle 5)				
5,1	Haircuts on Collateral eligible initial margin.	Quarterly. CCPs should list all changes made during the quarter including effective dates	**Consultation question:** How frequently are haircuts changed?	Ideally quarterly should be sufficient. However based on regression analysis of defaults where certain underlying assets are historically prone to volatile re-valuations then monthly would be advisable
5,2	Haircuts on collateral eligible for pre-funded participant contributions to the default resources (if different from 5.1)	Quarterly. CCPs should list all changes made during the quarter including effective dates	**Consultation question:** How frequently are haircuts changed?	The portfolio should be divided according to the nature of the volatility of the underlying asset's valuations.
5,3	Results of testing of haircuts: state the assumed holding period for the collateral accepted, and the number of days during the past year on which the fall in value during the	Quarterly	**Consultation question:** How could this information best be presented to	Analysis that tracks the deviation values of the difference between actual

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	assumed holding period has exceeded the haircut on an asset.		provide meaningful information across CCPs while avoiding disproportionate reporting burden?	settled value and the haircut would identify the need of setting floor and ceiling limits of haircuts as a pre-emptive move to minimize settlement differences and avoid changing haircuts beyond a quarterly basis
6. Margin (Principle 6)				
Initial margin				
6,1	For each clearing service, total initial margin required, split by: • House and client and, for each of house and client totals (or combined total if not segregated): - base-line initial margin - add-ons to base-line initial margin - retained MTM / VM (if applicable) • Currency [See explanatory notes]	Quarterly	**Consultation question:** Would it be preferable to report more frequently, e.g. monthly, or to report daily data over the period, the average over the period, highest and/or lowest values over the period, or data as at the end of the quarter?	This would have to depend on the concentration of deals settled within a month (1-2 weeks maximum). If these are the most dominant form of deals and they have volatile underlying assets (e.g.: Forex, Interest rate swaps) then daily would be advisable
6,2	For each clearing service, total initial margin posted (i.e. including baseline plus any add-ons), split by house and client (if segregated) – and for each of house and client	Quarterly	**Consultation question:** Would it be preferable to report more frequently, e.g.	Ideally for these underlying assets (equities, FOREX, commodities, mutual

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	totals (if segregated), split by: • Cash • local currency o USD o EUR o Other • Non-cash - government securities, - local • other o corporate bonds, o equities, o commodities gold other, o mutual funds / UCITs, o other Amounts should be reported both pre haircut (i.e. at market value) and at post haircut value		monthly, or to report daily data over the period, the average over the period, highest and/or lowest values over the period, or data as at the end of the period?	funds) it would be advisable to have daily reporting. Corporate Bonds could be reserved for monthly reporting
6,3	Initial margin rates on individual contracts, where the CCP sets such rates [See explanatory notes]	Quarterly. CCPs should list all changes made during the quarter including effective dates	Consultation questions: How frequently are initial margin rates and key parameters, including correlations, changed? Is the information requested sufficient to provide a basic understanding of the initial	Advisable to do this monthly
6,4	Initial margin assumptions for each clearing service and each initial margin model applied to that clearing service – key parameters including, but not limited to:	Quarterly. CCPs should list all changes made		It would be advisable to support the margin model

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	(i) single-tailed confidence level targeted; (ii) sample/data look-back period for establishing confidence level; (iii) close-out/holding periods by product; (iv) correlations/offsets [e.g. for SPAN style models this might include inter-month spread charges and inter-contract spread credits]. [See explanatory notes]	during the quarter including effective dates	margin model, or is more or different information necessary? (e.g. the weighting applied to historic data, the range of volatility shifts modeled, etc?)	with additional portfolio behavioral data such as volatility shifts and parameter weighting should be in line with regression analysis to provide more conservative margin realization forecasting
6,5	Results of back-testing of initial margin. At a minimum this should include, for each clearing service and each initial margin model applied to that clearing service: (a) Number of times over the past year that margin coverage held against any account fell below the actual marked-to-market exposure of that member account – based on daily back testing results* (b) Number of observations (i.e. number of accounts multiplied by number of days covered in the back test) (c) Achieved coverage level i.e. [(b) – (a)]/(b) * Specify if measured intraday/continuously or only once a day. If once a day, specify at what time of day. Where breaches of initial margin coverage (as defined in 6.5(a)) have occurred, report on size of uncovered exposure. [See explanatory notes]	Quarterly Peak and average amount of excess	**Consultation question:** How could this information best be presented to provide meaningful information across CCPs while avoiding disproportionate reporting burden? Is this information best presented at the level of clearing member accounts in each clearing service?	Based on the experience and the nature of deals by the Financial institution we would suggest a 'seasonality' colander which would show the historical peaks with their average amount of excess and only report those instances where the margin coverage fell below the MTM exposure which have exceed the historical peaks and then focus on the drivers through a re-evaluation of the regression analysis to improve predictability
7,1	Size and composition of qualifying liquid resources for each clearing service (or at aggregate CCP level if not managed at clearing service level) – for each relevant	Quarterly as at Quarter end	**Consultation question:** Would disclosures on composition of liquid	Significantly material currency an equity sales movements could 'tip-off'

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	currency – split by cash at central bank of issue; cash at commercial banks; committed lines of credit; committed foreign exchange swaps; committed repos; highly marketable collateral held in custody and investments that are readily available and convertible into cash with prearranged and highly reliable funding arrangements even in extreme but plausible market conditions. [See explanatory notes]		resources reveal sensitive information about individual liquidity providers? (please say why, and how the disclosure could be amended to ensure adequate information on liquid resources is disclosed without this sensitivity?)	financial institutions' competitors as to what their swapping/repo strategies are or if they are experiencing liquidity adequacy issues for instance. Perhaps classifying the financial instruments into broad 'asset class' definitions would only reveal high level reporting.
7,3	What is the estimated largest same-day and, where relevant, intraday and multiday payment obligation in total that would be caused by the default of any single participant and its affiliates in extreme but plausible market conditions? Report the number of business days, if any, on which the above amount exceeded qualifying liquid resources (identified as in 7.1, and available at the point the breach occurred), and by how much. What is the estimated largest same-day and, where relevant, intraday and multiday payment obligation in each relevant currency that would be caused by the default of any single participant and its affiliates in extreme but plausible market conditions? Report the number of business days, if any, on which the above amounts exceeded qualifying liquid resources in each relevant currency (as identified in 7.1 and available at the point the breach occurred), and by how much.	Peak day amount in quarter and average over quarter No. of days in quarter, and amount of excess on each day Peak day amount in quarter and average over quarter No. of days in quarter, and amount of excess on each day	**Consultation question:** How could this information best be presented to provide meaningful information across CCPs while avoiding disproportionate reporting burden? Would reporting this data present confidentiality issues and why?	From a simplistic perspective a materiality scale should be implemented that would identify the probability and impact of a defaulted deal. Based on that forecasting analysis reserve the frequency of the reporting to be higher for greater probability default and impact deals that would exceed risk appetite

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10. Physical Deliveries principle 10				
10,5	Peak daily value of contracts, split by each type of physical commodity and type of security defined as physically settled, delivered by a single participant (and affiliates)	Quarterly Quarterly peak	Consultation question: Would this disclosure enable informed market participants to identify individual market participants and, if so, would that be materially commercially prejudicial to CCP participants and why?	Yes it could provide commercially prejudicial information if disclosed. The best case scenario would be to create high level product classes which would only reported if they represent a significantly disproportionate part of the portfolio
13. Default rules and procedures (Principle 13)				
		Ad-Hoc	**Consultation question:** Would it be useful to publish quantitative disclosures following a default, with a suitable lag? (e.g. amount of loss versus amount of IM; amount of other financial resources used to cover losses; proportion of client positions closed-out /ported (in aggregate such that individual clients/members cannot be identified))? How long after the default would be appropriate?	It would be advisable if the aggregate amount is materiality significant versus the financial institution's risk appetite. Also if the frequency trend of the defaults increases significantly or is higher than seasonality peaks the disclosures should be more granular to have shorter lag times between liquidating other assets to cover losses.
15. General Business risk (principle 15)				

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15,1	(a) Value of liquid net assets funded by equity set aside to cover business risks and (b) minimum amount of liquid net assets funded by equity required to cover six months of current operating expenses [See explanatory notes]	Annual	**Consultation question** Would any CCPs have difficulty providing more frequently e.g. every six months or quarterly, and would this add significant value?	Shortening the time gap in anticipating short term and long term liquidity needs (liquidity ladder) is critical to making more prudent future deals. Thus depending on the volatility of the underlying assets and their liquidity rates it would be advisable to use quarterly at a minimum
15,2	Financial disclosures: including, but not limited to, • total revenue, • total expenditure, • profits, • percentage of profit retained and percentage distributed assets, • liabilities. Explain if collateral is on or off balance sheet.	Annual	**Consultation question** Would any CCPs have difficulty providing more frequently e.g. every six months or quarterly, and would this add significant value?	This would be dependent upon number of deals, their average settlement time frames and the volatility of the underlying asset. Every quarter would at least anticipate seasonality behavior more effectively
15,3	Income breakdowns: • fees from provision of clearing services; • income from investments that is retained by the CCP; and • income from other business lines e.g. data services). This should be reported separately for each clearing service (i.e. for products covered by a segregated default	Annual	**Consultation question** What information on revenue would best give an insight into risks facing the CCP, while respecting commercially sensitivity?	Tracking fee costs would identify which counterparties are historically value destroyers as a pre-emptive move to change the client base and minimize risk.

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	fund), where available.			
16. Custody and investment risk (principle 16)				
16,2	Summary statistics of investment portfolio split by IM and default fund/guarantee fund, where member/client cash collateral is invested at CCP's discretion: • secured/unsecured split; • break-down of assets invested in; o reverse repo o sovereign debt o time deposit and CD central bank commercial bank other • by currency; • maturities (overnight/1 day; over 1 day and up to 1 week; over 1 week and up to 1 month; over 1 month and up to 1 year; over 1 year and up to 2 years; over 2 years); • maximum per cent of portfolio accounted for by any single investment counterparty	Quarterly	**Consultation question:** What summary statistics could be disclosed without revealing sensitive information? (e.g. on concentration, maturity)	Default migration rates, collateral haircut changes, collateral eligibility changes. These could anticipate how best to formulate future settlement deals. These should be monitored at a minimum of monthly and reported quarterly.
18. Access and participation requirements (principle 18)				
18,2	Percentage of net open positions held by the top 5 and 10 clearing members in aggregate, by product as appropriate	Average and peak end-of-day value in previous quarter	**Consultation question:** Could these metrics reveal information about individual members? If so, how should information about concentration across members be conveyed?	Classify the concentration clearing members according to the underlying asset class rather than clearing member name.

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18,3	Percentage of initial margin posted by the top 5 and 10 clearing members in aggregate, by service as appropriate	Average and peak end-of-day value in previous quarter		
18,4	Percentage of participant contributions to the default fund contributed by top 5 and 10 clearing members in aggregate, by segregated default fund	Quarterly (end of quarter value)		
18,5	Count of clearing members with [more than 10%, 5-10%, less than 5%] of initial margin.	Quarterly		
19. Tiered participation arrangements (principle 19)				
19,1	Measures of concentration of client clearing, where achievable: Number of clients? Number of direct members that clear for clients? Per cent of client transactions (by total volume, by total value, by total IM) attributable to the top 5 and 10 clearing members? Count of members with [more than 10%, 5-10%, less than 5%] of client initial margin/transaction volumes	Quarterly	**Consultation question:** Could these metrics reveal information about individual members? If so, how should information about concentration of client clearing be conveyed? Do CCPs have access to all the requested information?	Perhaps classifying the clients according to asset classes and total volumes which represent the most significant portion of their clearing portfolio rather than client numbers could ensure some anonymity
FMI links (Principle 20)				
20,4	Results of back-testing of coverage of initial margin on trades cleared through each link. At a minimum this	Quarterly	**Consultation question:** How could this information	Set up a materiality scale that would be based on

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	should include: (a) Number of times over the past year that margin coverage held against each linked CCP fell below the actual marked-to-market exposure of that CCP – based on daily back testing results* (b) Number of observations (i.e. number of accounts multiplied by number of days covered in the back test) (c) Achieved coverage level i.e. [(b) – (a)]/(b) *specify if measured intraday/continuously or only once a day. If once a day, specify at what time of day.		best be presented to provide meaningful information across CCPs while avoiding disproportionate reporting burden?	buffer limits which if exceeded would trigger the need to conduct back testing on an ad-hoc basis. However regular regression analysis should be monitored on a quarterly basis to track shrinking or loss making margins to reassess margin forecasting and change deal parameters
20,8	Number of members participating in cross-margining	Quarterly	**Consultation question:** If the number of members participating in the cross-margining arrangement is fewer than 5, the CCP should consider whether 20.6-20.7 can be disclosed without revealing information about individual member positions	Should a financial institution increase its cross-margining activities it would be advisable not have a single number as the trigger to require disclosure. If cross margining increases significantly (e.g.: 20%+) within a year then it should be reported monthly...once it cross margining represents a stabilized % of the overall portfolio then it should be reported quarterly