

## **NCC comments on the Public quantitative disclosure standards for central counterparties - consultative report**

**Comments to the cover note are as follows:**

- **Are there additional quantitative data that are not included but are, in the respondent's view, necessary to allow risks associated with CCPs and the systemic importance of CCPs to be understood, assessed and compared? If so, what additional data should be disclosed, and why?**

NCC believes that the information offered for disclosure allows one to reasonably assess CCP risks. NCC has no propositions to add any other information.

- **Are there alternative quantitative or qualitative data, or more effective ways of presenting these or alternative data, that would better meet the objectives of fully, clearly and accurately understanding CCP risks and systemic importance, and comparing CCP risk controls, financial condition and resources to withstand potential losses, given the different markets and products cleared by CCPs, and differences in their structure? Are there data items included that are not, in the respondents' view, necessary to achieve these goals and, if so, why are these not necessary?**

Below you will find NCC comments on particular points which according to NCC opinion do not add any new information helping to understand the CCP risks while the disclosure of this information requires significant effort.

- **Would any of this data be materially commercially prejudicial to CCP participants, linked FMIs or other relevant stakeholders and why is this the case?**

We believe the risk of disclosing any required data associated with the commercial interests of Participants or other interested parties is minimum as the information for disclosure is anonymized and aggregated.

- **Would disclosure of any of this data result in material additional burden to the CCP, and why (for example, because the data are not routinely available to the CCP in the normal course of its business and risk management)? If so, what analogous information could be disclosed in a meaningful way that would achieve similar goals while minimizing this burden?**

Below you will find comments on some points which according to the NCC opinion are excessive and do not provide any additional information helping to understand CCP risks.

- **Would disclosure of any of this data be inconsistent with local law or any legal or regulatory limitations on public disclosure? If so, what analogous information could be disclosed in a meaningful way that would achieve similar goals while avoiding such inconsistency?**

We believe the disclosure of required information will not contradict the requirements of the Russian legislation or any other Regulatory Acts.

- **Do the suggested frequencies for disclosing data strike an appropriate balance between up to date information and reporting burden? What is an appropriate reporting lag?**

Comments on the information disclosure frequency are listed below in the body of the comment letter.

**• (For CCP respondents) which of these data elements do you already publicly disclose? To what extent is that data maintained consistent with the quality controls called for in the template?**

On its own website/on the website of Moscow Exchange the NCC discloses in particular the following information:

- discounts applied to collateral (Art. 5.1.-5.2.);
- current collateral rates (Art. 6.3);
- models used to define the volume of collaterals required (Art. 6.4);
- financial statements (Art. 15.2);
- structure of investments assets (Art. 16.2), not in absolute terms, but in relative terms. Alongside with it we do not disclose maximum investment volume for a single Counterparty.
- list of Clearing Members (Art. 18.1), however their classification is not detailed in accordance with the requirements of this Article.

At the same time NCC almost does not disclose the data on the volumes of posted and required collaterals with a split by currency, financial instruments etc., excluding the information contained in NCC Financial Accounts. NCC also does not disclose quantitative information re settlement volumes and operational risks.

Besides NCC does not disclose the information in the form offered – the website mostly contains the information on current quantitative indicators; calculations of average and maximum indicators for the quarter as well as list of quarterly changes are not conducted.

**• What is the appropriate structure for presenting the quantitative disclosures so that comparability is facilitated? Once reporting has begun, should previous reports remain available to allow trends over time to be examined?**

In case information disclosure for previous periods is needed we propose to limit the period during which the information is available.

Below we submitted the NCC comments on particular Articles of the Document.

**• 4.1.**

Description runs that the data on CCPs own funds must be split by clearing products. At the same time the residue of NCCs own funds used after the Guarantee Fund according to Clearing Rules is not split by market or by product. We believe it is necessary to add an explanation saying that a split by clearing service is not performed in case resources are not split by product (similar to exception in Art. 7.1).

Besides we would like to draw attention to the fact that in Russian legislation the CCPs own funds/capital are not divided into “prefunded” and “committed”. The difference between them is unclear, besides in prefunded resources one has to specify (as described in the brackets) the full volume of CCP capital which can be used in the default waterfall before Participants’ money, together with it or afterwards.

- **4.2.**

NCC resources mentioned in this Article are Participants' contributions to the Guarantee Fund and NCC own funds. The total volume of NCC own funds is shown in rubles (however contributions to capital are not necessarily monetary, but, e.g. securities).

Description runs that submitted financial resources must be split into monetary assets in different currencies, non-monetary assets etc. However it is unclear whether they should be divided based on the information about assets or sources of funds.

We would like to propose adding the information on how this Article should be interpreted: whether one should focus on the capital sources or on the assets the CCP has invested its funds in.

Besides we propose specifying only the current value of assets without discounts.

- **4.3.**

**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?**

The most obvious advantage of disclosing this information according to the NCC is receiving comparable information about other CCPs which might be important for potential Participants in case they choose between various CCPs. On the other hand the information in this respect will never be absolutely comparable as even if we apply a unified approach to the number of defaults different CCPs will still use their own internal methodologies of stress-testing.

- **5.1., 5.2.**

NCC discloses actual information on current risk parameters (including discounts), in the future we are also planning to disclose information on current risk parameters on any date chosen. However analysis and tracking indicator changes is performed only at user's request. We propose to exclude the requirement to disclose all changes in default indicators.

**How frequently are haircuts changed?**

Haircuts change frequency for assets accepted as collateral by NCC depends on the market. For FX and Securities haircuts depend on the volume of initial margin for these assets and thus on current instrument volatility, changing in case of the changes in market volatility. In the Derivatives market there is a single conservative discount for all shares accepted as collateral which is not subject to frequent re-consideration.

- **6.1., 6.2.**

It is unclear why and in what way the **initial** margin must be split by currency (Paragraph 3 Article 6.1). We propose excluding the requirement on this split from the Document.

It is also not quite clear why the initial margin should be split into base-line and add-on and what practical benefits it gives the Users considering that collecting and disclosing this information will increase the workload of CCP reporting. We propose excluding this requirement from the document.

Besides, the risk-management system on the FX and Securities markets where NCC operates as a CCP does not use such notion as a required initial margin. Collateral adequacy in these markets is controlled through single limit calculation. Thus if NCC accepts this Article of

the Agreement it will need to “artificially” calculate this amount for the markets mentioned which will require additional control of data quality before publishing.

**Would it be preferable to report more frequently, eg 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?**

NCC does not find necessary to disclose this information more frequently than once a quarter. We would also propose providing the information at the end of the quarter without specifying maximum/average indicators for the period as the relevance of this information is not quite obvious.

- **6.3.**

NCC discloses actual information on risk parameters (including collateral rates), for some markets there is also information on risk parameters for particular historical dates. In the future we are also planning information disclosure on risk parameters on any date chosen in all markets. However analysis and tracking changes of indicators is performed only at users request. We propose to exclude the requirement on listing all changes in the initial margin rates.

- **6.3., 6.4.**

**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 margin model, or is more or different information necessary? (eg the weighting applied to historic data, the range of volatility shifts modelled, etc?)**

NCC believes that the information submitted is enough to understand the margining model used.

- **6.5.**

**How could this information best be presented to provide meaningful information across CCPs while avoiding disproportionate reporting burden?**

The NCC currently calculates and transfers similar information to the Bank of Russia, however the methodology of indicators calculation is different from the one offered in the Document. If the information is duplicated it will cause increasing workload resulting from providing reports on two identical indicators.

- **6.6, 6.7.**

The risk-management system on the FX and Securities markets where NCC operates as a CCP does not require posting variation margins. Collateral sufficiency in these markets is controlled with the help of the single limit. Additional collateral margin-call requirements come into force in case of negative single limit value. We propose considering the possibility of excluding this requirement from the Document.

- **7.1.**

**Would disclosures on composition of liquid 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?)**

We assume that information disclosure (specified in Article 7.1) cannot lead to the disclosure of confidential information about liquidity providers.

- **7.2.**

Article 7.1. stipulates the possibility of not splitting liquid resources by market, we find it logical to make a similar reservation in this point.

- **7.3.**

We propose not disclosing the information required in this Article because this will require additional efforts to publish the information (especially intraday). We do not quite understand the benefit from quarterly disclosure of internal CCP information which does not influence the fulfillment of CCP's liabilities to Clearing Members.

- **9 – 12.**

We propose considering the possibility of reducing the volume of settlement operations information disclosed, in particular, excluding the information on settlement volumes of one Participant (Articles 9.3, 10.5), as preparing and publishing such information leads to increasing expenses while the applicability of the information is not obvious.

- **13.1.**

**Would it be useful to publish quantitative disclosures following a default, with a suitable lag? (eg 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?**

NCC is kindly asking you to specify what is meant by "default" in this case. NCC does not find it necessary to disclose the information on technical defaults. From a legal standpoint information disclosure on real defaults is possible, but to meet the requirements of the Federal Law "On Clearing and Clearing Activity" (Participant's consent to disclose the information) it will be necessary to include the Statement on default information disclosure into the Clearing Rules.

- **15.1.**

**Would any CCPs have difficulty providing more frequently eg every six months or quarterly, and would this add significant value?**

NCC assumes annual information disclosure is enough to understand business risks of the CCP. Besides we would like to draw your attention to the fact that Russian regulations contain no detailed methodology of defining liquid net assets and current operational expenses as well

as any requirements to the statements reporting schedule. NCC assumes that overall frequency of information provision should not be higher than the frequency of reporting statements as the data required is based on the statements figures.

- **15.2.**

**Would any CCPs have difficulty providing more frequently eg every six months or quarterly, and would this add significant value?**

Taking into account that to compare this information from various CCPs financial information disclosure must be done in accordance with IFRS, NCC finds annual information disclosure sufficient.

Besides we propose to specify whether the information on financial indicators can be disclosed in a consolidated form if the CCP is a member of a group of Companies.

- **15.3.**

Paragraph 5 of this Article runs that the information must be disclosed separately for every market of the CCP. Does this mean that investment income must also be split by market? We propose to add an exclusion at least for this type of revenue as for NCC it will be very difficult to differentiate investment incomes from different markets.

**What information on revenue would best give an insight into risks facing the CCP, while respecting commercially sensitivity?**

We assume that the information required in this point is enough to understand the business model and risks of the CCP.

- **16.2.**

The definition of the term "investment" is unclear, in particular: are assets on settlement/corresponding/clearing NCC accounts opened at organizations performing settlement operations based on clearing results considered as investment?

**What summary statistics could be disclosed without revealing sensitive information? (eg on concentration, maturity)**

The level of detail proposed in the document, from NCC's standpoint, allows to preserve the confidentiality of investment activity information.

- **17.1 – 17.3**

NCC believes that providing information on target levels of system performance (Article 17.1) cannot work as a comparative base for various CCPs assessment which is the aim of information disclosure in this case as there is no single international/national standard or methodology for calculating these ratios. Besides, unified approaches to classify incidents by criticality levels of are not defined, and the ratios are to be calculated based on the statistics of actual values of these incidents (Article 17.2-17.3). Due to this the data disclosed by the CCP in

accordance with Article 17.1-17.3 of the Document will not provide any comparable data on various CCPs and might confuse the users of such information.

We propose to exclude these indicators from the Document. If the CPSS-IOSCO finds it necessary to provide incident statistics, NCC suggests to disclose statistical information specified in Article 17.3 applied to incidents which influenced the consistency of service rendering for the participants.

- **18.2.-19.1.**

**Could these metrics reveal information about individual members? If so, how should information about concentration across members be conveyed?**

In the NCC opinion this data cannot disclose the information about individual members. At the same time NCC doubts the applicability of the data mentioned in Article 18.5. We propose to exclude this requirement from the document.

It is unclear what is meant by net open positions of the clearing member in Article 18.2 and how these positions should be defined. We propose excluding this requirement from the Document due to the fact that risk concentration for large participants is quite well defined by the initial margin (Article 18.3 of the Document).

- **20.4.**

**How could this information best be presented to provide meaningful information across CCPs while avoiding disproportionate reporting burden?**

Not applicable to NCC activity as NCC currently has no links with other CCPs. At the same time we assume that this issue could be solved similarly to Article 6.5.

- **20.8.**

**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**

Not applicable to NCC activity as NCC now has no links with other CCPs.