April 16th, 2024

BASEL COMMITTEE ON BANKING SUPERVISION (BCBS)

COMMITTEE ON PAYMENTS AND MARKET INFRASTRUCTURES (CPMI)

INTERNATIONAL ORGANIZATION OF SECURITIES COMMISSIONS (IOSCO)

Ref.: BCBS-CPMI-IOSCO - Consultative report on Transparency and responsiveness of initial margin in centrally cleared markets – review and policy proposals

Dear Sirs,

B3 S.A. – Brasil, Bolsa, Balcão (B3), a company incorporated under the laws of Brazil, is authorized in Brazil as an operator of securities, commodities, and futures exchange and of an OTC market, as well as clearinghouse, foreign exchange clearinghouse, central depository, and trade repository.

B3 welcomes the opportunity to present comments on the Consultative Report on Transparency and responsiveness of initial margin (IM) in centrally cleared markets – review and policy proposals (CR 01/24), published by the Basel Committee on Banking Supervision (BCBS), the Committee on Payments and Market Infrastructures (CPMI) and the Board of the International Organization of Securities Commissions (IOSCO) in January 2024 (Consultative Report). The purpose of the Consultative Report is to present 10 policy proposals for increasing the transparency of IM requirements and evaluating the responsiveness of IM models to market stress in centrally cleared markets.

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B3 commends BCBS-CPMI-IOSCO on the 10 policy proposals, and although B3's comments are focused on the policies proposals 1, 2 and 3, we remain available to provide any clarification, historical data and/or our experience regarding the Brazilian market.

Policy Proposal 1 - *Margin simulation tools, commonly used by market participants to estimate margin requirements, should be made available by all CCPs to all clearing members and their clients*

B3 strongly advocates for the availability of IM simulation tools to all participants. These tools provide clear benefits for risk management carried out by the participants, by allowing them to estimate the variations in the required IM in advance. This provides them with relevant information to aid their decision-making process regarding new transactions, such as potential liquidity needs to meet IM calls due to portfolio changes. Moreover, participants may use the tools to be better prepared to ensure IM coverage obligations are met.

B3 adopts the final beneficiary model, which requires the segregation of positions and guarantees as per the applicable Brazilian legal framework. This framework obligates the identification of the end customers of transactions and monitoring them. In this context, B3 Clearinghouse calculates and requires IM at the investor's portfolio level and therefore the granularity provided by the IM simulation tool goes down to each customer's account level. The simulation tool can be accessed by clearing members and intermediaries free of charge and by final investors at a cost per simulation (and depending on the quantity and type - ETD or OTC - of positions included in simulated portfolio). A simpler, web-based version[1], is also made available to the general public free of charge.

We observe a high rate of use of the IM simulation tool by clearing members and intermediaries. Despite the low number of final clients using the charged tool, many clients are able to access the tool through interfaces built by their intermediaries / clearing members.

Proposal 2 - *Margin simulation tools should include, at a minimum, functionality allowing the following: (a) the calculation of margin requirements under varying historical and hypothetical market conditions for current and hypothetical portfolios. (b) The incorporation of add-on charges in addition to baseline (or "core") initial margin. CCPs should ensure that margin simulation tools reflect all material components of the underlying quantitative methodologies*

B3 also agrees with the policy proposal 2, including the possibility of adaptations in line with the characteristics of the CCP's margin model and the difficulties in including margin add-ons that do not depend exclusively on the portfolio.

The B3 Clearinghouse tool allows the user to simulate IM requirement for a hypothetical portfolio given the current parameters of the margin model (such as stress scenarios for variation of prices and volatilities, and daily market liquidity levels) and the market prices at the previous EoD. It does not apply intraday price

[1] Available at: <https://simulador.b3.com.br>.

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updates and calculation of margin add-ons nor does it allow simulation of IM under hypothetical market prices or hypothetical values of the margin model parameters.

Although its simulation tool has the aforementioned restrictions, B3 fully agrees that such features (margin add-ons, intraday price update, hypothetical prices and model parameters) are useful and beneficial for a small group of investors that have more complex portfolios. These features can make the IM estimate more accurate and allow assess the impact of events beyond portfolio changes, such as model parameters changes, which may be determined by the CCP generally as a result of changes, occurring or potential, in the market conditions. More accurate information and a broader spectrum of simulated situations enrich the risk management and, consequently, increase the participants' ability to meet IM calls, ultimately mitigating the CCP exposures.

B3 considers inherent to its role as central counterparty (i) to evaluate the development of new functionalities that increase transparency for participants and their ability to predict and take actions to meet IM calls, and (ii) implement them when relevant and feasible.

Policy Proposal 3 - *Where legally permissible, CCPs should make margin model documentation available to CMs at a level that can enable them to understand key aspects of the CCP's margin model and its approach to risk management. This documentation should include the following: (a) Explanations of the calibration of key model parameters, including any relevant components which affect the size and speed of margin requirement changes during periods of elevated stress. (b) The logic, applicable thresholds and data used for the calculation of margin add-ons*

B3 acknowledges the importance of providing information and explanations on the key model parameters, as proposed in 3a. This is important to enable participants to assess and understand the key aspects of the CCP's margin model and to use it in their risk management framework. Nevertheless, it is essential that CCPs maintain autonomy over the level and detail of the information to be disclosed to their participants, according to their characteristics and in a way that allows participants (including clients) to properly understand the CCPs margin model and its parameters.

B3 appreciates the opportunity to present comments to the Consultative Report and is available for any additional information and discussion that may be useful to BCBS-CPMI-IOSCO.

Best regards,

B3 S.A. – Brasil, Bolsa, Balcão

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