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Submitted via email to: baselcommittee@bis.org; cpmi@bis.org and margin@iosco.org.

RE: BCBS-CPMI-IOSCO: Transparency and Responsiveness of Initial Margin in Centrally Cleared Markets

BlackRock¹ is pleased to have the opportunity to respond to the consultative report issued by the Basel Committee on Banking Supervision (BCBS), the Committee on Payments and Market Infrastructures (CPMI) and the Board of the International Organisation of Securities Commissions (IOSCO).

BlackRock supports a regulatory regime that increases transparency, protects investors, and facilitates responsible growth of capital markets while preserving consumer choice and assessing benefits versus implementation costs.

We engaged with the BCBS-CPMI-IOSCO's last Review of Margining Practices in 2022 and welcome the opportunity to comment on the issues raised by this follow-on consultative report. We will continue to contribute to the thinking of the BCBS, CPMI and IOSCO on any issues that may assist in the final outcome.

We welcome further discussion on any of the points that we have raised.

Yours faithfully,

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¹ BlackRock is one of the world's leading asset management firms. We manage assets on behalf of institutional and individual clients worldwide, across equity, fixed income, liquidity, real estate, alternatives, and multi-asset strategies. Our client base includes pension plans, endowments, foundations, charities, official institutions, insurers and other financial institutions, as well as individuals around the world.

Introduction & Executive Summary

BlackRock is supportive of central clearing and the use of Central Clearing Counterparties (CCPs) who deliver standardised risk mitigation and transparency to the derivatives markets, thereby addressing many of the shortfalls that were made evident during the Global Financial Crisis (GFC).

Asset managers acting on behalf of end-investors, clearing members (CMs) and CCPs have all been working over several years to evolve the clearing model and significant progress has been made. As a greater number of products shift to the centrally cleared model, work needs to continue to ensure that CCPs remain resilient and the pro-cyclical aspects inherent to central clearing do not excessively amplify shocks during periods of market volatility.

There have been several instances in recent years – including at the onset of the pandemic, the invasion of Ukraine and during the UK Gilt crisis – where margin calls exacerbated volatility at times when liquidity across markets was increasingly challenging to source. Limited transparency from CCPs, resulted in unexpected margin calls, which made it challenging for some market participants to prepare their portfolios accordingly. Similarly, the lack of transparency from CCPs, regarding margin changes made it difficult for end-investors to make informed investment decisions in a timely manner.

As outlined in our [response](#) to the BCBS-CPMI-IOSCO 2022 *Review of Margin Practices* consultation, we recommend that policymakers ensure CCPs size initial margin (IM) conservatively, using appropriate model assumptions to mitigate the potential for future procyclical IM changes.

CCPs generally believe they provide tools to predict margin, while clearing members and their clients often conclude that those tools are not sufficient for them to predict IM changes. In addition, many CCPs consider the models to be proprietary and protected by intellectual property rights, creating an impasse in the market. We do not believe a CCP's margin models should be viewed in such a manner since IM is a cornerstone of the clearing mandate's risk mitigation goal. Sufficient model transparency will help market participants be prepared for the next market stress event.

We welcome the recognition in the latest revision of the European Market Infrastructure Regulation (EMIR 3.0) that transparency of margin models from CCPs and clearing members is key. ESMA is now empowered to develop technical standards detailing the scope and format of the exchange of information between CCPs and CMs, and between CMs and their clients, covering margin models, add-ons, and model assumptions etc.

In our experience, the degree and quality of CCP margin transparency is wide-ranging, and the level of detail or lack thereof varies by CCP. Therefore, we welcome the policy proposals suggested by BCBS-CPMI-IOSCO on making margin simulation tools and 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”.

Existing CCP disclosures continue to be limited by a lack of detail and are often inconsistent across entities. In some cases, there is a lack of specific formal mechanisms in place to hold CCPs accountable for the timeliness and accuracy of their disclosures. Regulators should mandate greater standardisation of disclosures across CCPs and implement audit requirements to ensure that disclosures are accurate, clear and consistent.

Ultimately, CCP disclosure can be improved beyond margin model transparency. Today, the quality of disclosures available to conduct credit analysis varies greatly by jurisdiction and it is universally more difficult to obtain requisite information from CCPs than it is from our bilateral counterparties (banks and broker dealers). We want consistent disclosures from

all of the CCPs that we use and urge regulators to monitor and ensure that CCPs' current disclosure practices meet the existing requirements and are in compliance with the 2012 CPMI-IOSCO Principles for Financial Market Infrastructure (PFMIs).

Responses to Questions

1. Collectively, if adopted, would the set of proposals likely result in increased transparency and a mitigation of destabilising changes in margin requirements in centrally cleared markets? Please identify within the set of proposals any which would be particularly beneficial and others which may be less beneficial (e.g., where the costs may substantially exceed the benefits). Please provide an explanation to your answer.

These measures address transparency issues and will help market participants to anticipate and better prepare for margin calls. If implemented, these proposals would mitigate some of the destabilising and procyclical effects of margin practices seen in centrally cleared markets. That said, transparency is one component of addressing procyclicality and regulatory attention should remain on ensuring CCPs possess appropriate anti-procyclicality (APC) tools.

The proposals with the most potential benefit for end-users in our view are those related to enhanced disclosures:

- Proposal 4: CCPs should publicly disclose and describe the anti-procyclicality (APC) tools used in their model. CCPs should also publicly disclose and describe, at a high level, the model components that affect the level of model responsiveness.
- Proposal 5: CCPs should provide additional breakdowns of margin-related data through the Public Quantitative Disclosures (PQDs) and report such data more frequently and with shorter reporting lags. All PQD data should be reported consistently and accurately.
- Proposal 6: CCPs should disclose a new standardised measure of margin responsiveness, as designed by CPMI-IOSCO, alongside the associated changes in market conditions. This disclosure can be made through the PQDs.

On areas where the additional benefit could be outweighed by the cost of production, we would highlight:

- The frequency provisions for PQDs within Proposal 5 would provide market participants only marginal benefit. (Described in answer to Q.6.a)

2. Are there any aspects of margining practices in centrally cleared markets that have not been adequately covered by the set of proposals and which could positively contribute to achieving the Margin Group's objectives?

- a. One area for further consideration that is not addressed in the policy proposals would be a possible expansion of eligible collateral (with appropriate haircuts) as investors frequently hold high quality liquid securities that are not eligible as collateral under existing market rules, regulations or norms. This is aligned to the Margin Group's goal of enhancing the liquidity preparedness of market participants. We recommend expanding acceptable collateral to include Money Market Funds (MMFs) and Exchange Traded Funds (ETFs), where available in certain jurisdictions. This could further alleviate the procyclical impact of margin calls and is consistent with the policy rationale of margin rules.

With respect to MMFs, in March 2020, the limited acceptability of these instruments as collateral led counterparties to liquidate MMFs to raise funds for margin calls, increasing pressure on the short-term markets. If MMF shares could have been pledged themselves, the procyclical impact would likely have been less pronounced. Exploring ways to improve the transferability of MMFs so that they can be more readily used as

collateral would be helpful, thus avoiding unnecessary downward pressure on markets when one party redeems their MMF investment to post cash, and then that cash is often re-invested in a similar instrument.

With respect to ETFs, we believe that ETFs whose portfolio holdings consist of assets that would otherwise be eligible collateral, can serve as an appropriate form of collateral. ETFs are transferable, liquid and transparently priced, which supports their use in this manner. In addition, in-kind redemptions (via an Authorised Participant) generally provide holders of the ETF with the ability to access securities in the ETF's underlying portfolio should a collateral holder prefer to access ETF portfolio holdings and sell these securities directly, rather than relying on exchange liquidity.

Both the potential liquidity and pricing transparency benefits of ETFs were demonstrated during the COVID-19 induced market volatility in spring 2020. As bond and treasury markets became more volatile, investors sought out bond and Treasury ETFs for liquidity. As more investors turned to these products, they became indicators of real time prices.

For expanded collateral eligibility to be most impactful, consideration should be given to the way collateral concentration limits are applied at CCPs. Concentration limits tend to be applied at the clearing member-level (e.g., no more than X% or equity collateral as IM) which can restrict the eligibility of certain collateral types at the end-investor level. If the aim is to reduce the pro-cyclical impacts of margin calls and to ensure market participants are better prepared for liquidity risk, then we suggest regulators initiate a conversation around collateral eligibility and collateral concentration limits. CCPs should ensure that clients have access to limits for alternative collateral types and that collateral limits are aligned with the liquidity in the underlying assets.

- b. A second area for consideration would be to review current margin models to ensure the baseline methodology is sufficiently conservative to mitigate the need for destabilising margin increases. Policymakers should ensure CCPs size IM requirements by:
- Incorporating appropriate and defensible assumptions on the time it takes to liquidate a portfolio of trades (referred to as the “margin period of risk”).
 - Including relevant historical market trends (referred to as the “look back period”).
 - Addressing concentration risk through appropriate margin adjustments (referred to as “margin add ons”)
 - Scrutinising correlation assumptions when offering portfolio margining (referred to as “margin offsets”); and
 - Providing enhanced transparency to the market on specific margin rate changes to allow investors to pinpoint the contracts impacted.

Despite the significant body of regulatory guidance on IM standards developed as part of the 2012 CPMI-IOSCO Principles for Financial Market Infrastructure (PFMIs), the experience of March 2020 underscores the need to enhance the standards themselves and/or review their implementation and CCP compliance. While any resulting changes would likely result in higher margin requirements during ordinary market conditions, the market would benefit from more stability during periods of market stress. If CCP models had been more conservative at the outset, the 2020 and 2022 moves in IM would have been more muted. Therefore, in our view, shifting the balance to a more conservative margin approach would result in greater financial stability and greater confidence to invest.

- c. Lastly, we believe regulators should consider broader structural issues that could influence a CCP's incentive to keep margin sufficiently conservative. We remain concerned that most CCPs still lack adequate dedicated funds in the default waterfall to effectively achieve this incentive alignment. As proposed in the 2020 industry white

paper *A Path Forward for CCP Resilience, Recovery and Resolution*, one way to achieve this alignment would be to increase the level of required CCP capital at risk in a default and allocate the capital at risk into two distinct tranches: one first loss tranche to incentivise sufficiently conservative IM models and a second tranche to incentivise sufficiently sized default funds. We urge the Margin Group to consider the impact of an appropriate CCP capital framework on the fundamental incentives to right size IM.

3. Many of the proposals recommend that a market participant group (e.g., all CCPs, all CMs etc.) be required to provide enhanced disclosure or adopt a new practice. Should the principle of proportionality, with requirements dependent on participant size or type, be used in determining how different firms apply the proposals? If so, in what ways? Please specify the proposal(s) in your response.

We believe that it is sensible to apply principles of proportionality to requirements for margin simulators. CCPs should be required to offer margin simulators which provide a minimum level of functionality, such as calculating a portfolio IM calculation. Proportionality should be applied to requirements for providing advanced functionality such as ‘what if?’ calculations. Proportionality requirements should consider the breadth and complexity of products offered. One such test to determine whether a CCP offers sufficiently complex products could be whether it is included in the FSB’s list of systemically important CCPs i.e., “CCPs that are systematically important in more than one jurisdiction.” Eight of the thirteen CCPs currently on this list offer a margin simulator.

4. Are there cases in the proposals where there could be an effect on bilateral market margining? If so, what are the factors or instances that should be taken into consideration to ensure that proposals for cleared markets do not negatively affect dynamics within other markets?

The proposal contains measures related to transparency and does not specify any prescriptive tools for mitigating procyclicality. Enhanced transparency should improve market participants’ understanding of cleared IM and we do not envisage the proposed measures having a negative effect on bilateral market margining.

5. Proposals 1 and 2 recommend that margin simulation tools be made available by all CCPs to all CMs and clients, with enhanced functionality.

Margin simulation tools are an important tool for margin transparency and preparedness. They serve as a pre-trade tool, enabling market participants to understand the incremental impact on IM associated with potential portfolio changes. They also serve as a post-trade tool, enabling market participants to validate IM calculations which are provided by clearing members.

a. Are there certain modes of access to CCP simulation tools which are less costly or more effective?

Graphical User Interface (GUI) access models are web-based platforms that enable the user to manually enter portfolios for margin calculation. They can be either permissioned or public. While they offer accessibility at low cost for clients, that low cost comes at the expense of functionality and scalability.

Alternatively, Application Programming Interface (API) access models do not require a direct user interface. They offer additional functionality and scalability, but this often comes with increased cost and more complicated accessibility. Where API models are developed, market participants would benefit from a single connection to minimise development costs for CCPs and usage costs for market participants.

Both interfaces are relevant as they serve different market segments. For example, smaller firms may not have the resources for API connectivity, as such there should be flexibility in terms of the interface options provided by CCPs.

- b. Are there any impediments to making simulators available to clients? To what extent could these impediments be mitigated or resolved, e.g., by changing the mode of providing access to tools, or how clients request access to tools? Does this depend on the format of CCP tool (e.g., the use of cloud technology, the use of APIs, etc.)?**

Impediments can be grouped into the two themes of data security and ease of use. Data security is a challenge for margin simulators, specifically how data are stored once uploaded and whether portfolios are anonymised.

On ease of use, consideration needs to be given to how a CCP allows users to access the tools, whether through limited or broad market access. BlackRock believes that access should be available to both existing and prospective clients. CCPs should provide clear documentation to enable users to operate simulators with ease and product-level margin data (in percentage of notional value) should be made readily available to facilitate comparisons. They should provide clear breakdowns of margin requirements, including between core IM and margin add-ons.

In addition, there is no standard for uploading portfolio data and loading data correctly is challenging. Therefore, the CCP industry should come together and coalesce around a standard, streamlined portfolio data file to facilitate usage. This standardisation effort could be driven by existing CCP-led trade groups.

- c. Are there any reasons why the proposed historical and hypothetical scenarios to be provided as part of the simulator tool suite should differ from the CCP's current set of extreme but plausible stress test scenarios? In addition, would there be additional value in allowing users to customise their own scenarios within the simulator tool? If so, what types of customisation would be of most value?**

CCPs already identify and calibrate historical scenarios as part of their stress testing processes which are most relevant to the risks of the products they clear. Including some – or all – of these scenarios would be logical. This would be effective for understanding incremental IM impact of trades and reconciling margin.

Market participants would also benefit from forward-looking margin simulators which would provide information on how IM would change after a theoretical shift in underlying market conditions. This 'what if?' functionality is not available today. Customisable scenario calculations would provide additional value to market participants, who could overlay their own risk views to better tailor their investments. Giving market participants the ability to upload scenarios based on risk factors/assumptions which they deem relevant to their investment thesis would facilitate their understanding of potential liquidity requirements.

- d. Are there any elements of the initial margin calculation (e.g., add-ons) which would be difficult to incorporate into a standardised simulation tool? If so, what are the relevant challenges?**

CCPs have the ability to charge clearing member specific add-ons and these would be difficult to incorporate into a standardised simulation tool. Users of a margin simulation tool would not have insight into the CCP's credit monitoring of its members and therefore could not specifically simulate such an add-on. However, consideration could be given to the simulators producing generic "concentration" levels to provide the market with a sense of how the CCP considers that factor in its margin methodology.

6. Proposal 5 recommends a set of changes to the PQDs, further detailed in Table 5 of the report.

BlackRock believes that increased transparency of CCP margining practices is an effective tool to prepare market participants for potential margin increases during periods of stress. Public Quantitative Disclosures (PQDs) are critical tools for CCP disclosure of their margin models and BlackRock has consistently advocated for enhanced CCP transparency, most recently in our [response](#) to the 2022 BCBS-CPMI-IOSCO *Review of Margining Practices*.

Both clearing members and end-users have requested more granular disclosures which are released in a more timely and accurate fashion. We are highly supportive of Proposal 5 which requires more accurate, timely and granular data related to margin. We strongly agree with the proposals to include product type back testing in Section 6.5 of the PQDs.

a. With reference to Table 5, would the proposed additional data breakdowns and increased frequency of reporting facilitate market participants' understanding of the margin system?

The additional data breakdowns proposed in Table 5 would facilitate market participants' understanding of the margin system. At the same time, we believe that the high frequency of daily public disclosure proposed for 6.1 (total IM required), 6.2 (total IM held), and 6.6/6.7 (total variation margin paid to the CCP by participants) would not provide significant benefits given the periodic assessments of a CCP's financial strength that are undertaken by end investors.

The consultation notes that some CCPs produce PQDs on a one-month lag, but this best practice, though promulgated by CCP Global, is not uniformly met. We would be supportive of reducing the reporting frequency to a mandatory one-month lag for quarterly PQD reports.

b. Would there be any challenges in providing the additional data breakdowns or higher reporting frequencies? If so, are there alternatives that would be equally effective? For instance, are there alternative modes of more frequent public disclosures that would achieve a similar goal but result in reduced burdens on CCPs?

The Margin Group should urge industry groups (i.e., CCPGlobal, FIA, SIFMA AMG etc.) to develop a standard framework which identifies core margin vs. add-ons to facilitate comparability across CCPs. This standardisation would avoid any ambiguity associated with the additional breakdown of "core IM and add-ons", proposed for 6.1 and 6.2 in Table 5.

c. Are there any additional amendments to the PQDs, beyond those set out in Table 5, that would help market participants and stakeholders understand or anticipate changes in margin requirements? What would this information be, and how could this information be effectively incorporated into the PQD framework? For instance, would there be value in including additional non-quantitative information in the PQDs related to margin changes?

The Margin Group should require CCPs to publish back-testing results based on the margin responsiveness metric which is discussed in Proposal 6. Such a metric would provide a standard measure to allow market participants to assess model reactivity across CCPs.

There would be value in including additional non-quantitative information in the PQDs related to margin changes. CCPs should provide information related to their risk

appetite for APC. As noted in the Margin Group's Phase 1 report, 40% of CCPs surveyed have established APC risk appetites which vary from 25%-80%. Market participants would benefit from understanding a CCP's risk appetite for APC given the wide range of potential outcomes.

Market participants would further benefit from insight into the impact a CCP's APC tools have on current levels of IM. For example, market participants would benefit from understanding whether current margin levels are model driven or floor driven.

d. Are there any examples of current public disclosures by one or more CCPs which could be used as a guide for improved transparency?

Clients access CCPs through clearing members and most often do not have a direct relationship with the CCP. Therefore, clients do not receive the same level of disclosures as their clearing members and instead rely upon the high-level qualitative descriptions of margin methodologies that are typically included in the PFMLs. The PFMLs do not provide sufficient detail for clients to replicate margin results and typically provide only cursory reference to APC tools. We would like to see more fulsome explanations either directly in the PFMLs or through sources that are linked to the PFML, to justify the model assumptions CCPs make when calibrating their IM.

Some CCPs provide more detailed descriptions of their margin methodologies through client portals, however this practice is not widespread. Certain CCPs have provided ad hoc disclosures when requested related to the procyclicality of margins and provided information related to product level back testing, forward looking margin stressed margin simulations, etc.

We believe CCPs should provide detailed margin model documentation publicly to all clients and that the Margin Group should consider these ad hoc margin disclosures as examples of best practice related to APC disclosure that could be made available to the broader market.

7. Please review the analytical annex detailing the proposed design of a margin responsiveness metric, as described in Proposal 6.

We are supportive of a margin responsiveness metric as described in Proposal 6. Such a metric would provide transparency on a margin model's historical reactivity and inform the liquidity preparedness of market participants. Any requirements should emphasise standardisation to facilitate comparability between CCPs. We applaud the proposal to add this metric as a required field within the PQDs. Further, we believe CCPs should provide historical data related to the proposed margin responsiveness metric.

a. Is the proposed method for measuring margin responsiveness (i.e., a large call metric), alongside the associated change in volatility, an informative way of measuring responsiveness? If not, what alternative approach or methodology should be used, and why would that alternate approach better aid market participants in their liquidity planning?

A large call metric should be simple to compute and easy to understand. We are concerned the requirement for an associated change in volatility will make interpretation of the proposed metric challenging and add complexity to its calculation. As an alternative, CCPs could include qualitative notes with their disclosures related to the volatility associated with the large call metric to provide any necessary context.

- b. **For each parameter input for the responsiveness and volatility risk metrics, please select your preferred choice from the list below or provide an alternative option. Please provide an explanation and any supporting evidence for your choice.**
- i. **Large call window: five or 20 days.**
 - ii. **Observation period: one quarter or one year.**
 - iii. **Product vs portfolio reporting: Product, static portfolio or dynamic portfolio. If supporting product-level reporting, please provide information on which products should be reported by the CCPs. If supporting static and/or dynamic portfolio reporting, please provide information on how the portfolios should be determined and an explanation for how that one portfolio would be representative of clearing activity at the CCP.**
 - iv. **Volatility risk metric: Standard deviation or VaR (99%).**
 - v. **Volatility risk metric lookback period: 90 days or two years.**

The large call window should be one day to align with the time frame for a margin call.

The observation period should be one year because a shorter timeframe may not include a period of volatility which would limit the effectiveness of the metric.

Selecting the appropriate level of reporting presents a trade-off between simplicity and precision. While product level reporting is simpler to produce than portfolio level reporting, it does not account for the risk reducing benefits provided by portfolio diversification. We believe that two levels of reporting would offer the optimal trade off. CCPs should report on both a group of representative products and at a clearing service level. Product level is easy to produce and easy to interpret. Looking at representative products only would facilitate production of data. Clearing service level data would include portfolio effects. A static portfolio would be challenging as there are no agreed upon representative portfolios and interpretation would require knowledge of the portfolios content. Dynamic portfolios present similar challenges of standardisation and composition and would need to be controlled for risk reducing or adding trades.

- c. **Are there other parameters where calibration decisions are necessary for consistent disclosure of either margin responsiveness or market volatility?**
- d. **Do you foresee any challenges in the development and use of the proposed metric? For instance, are there challenges in applying a harmonised choice of parameter inputs across all CCPs and all products?**

No comment.

8. Proposal 7 recommends that CCPs identify and define an analytical framework for assessing margin responsiveness within the broader context of margin coverage and cost.

We are supportive of Proposal 7 which suggests that CCPs and regulators could use this framework to monitor margin models. We believe the framework would be equally beneficial at CCP Risk Advisory Committees as these bodies include market participants who are directly impacted by the risk management decisions of the CCP.

- a. **Are there other important balancing factors which should be taken into consideration when evaluating the performance of initial margin models?**

Margin responsiveness, cost and coverage are the appropriate factors to consider when evaluating the performance of IM models.

- b. **What elements of the “trade-off” framework would most help regulators to better understand how a CCP balances between important risk management factors? In**

what ways would this framework be useful in identifying cases where a review of the model by the CCP and/or the authority would be beneficial?

No comment.

10. Proposal 9 recommends a number of enhancements to CM-to-client transparency.

- a. Are there aspects of the proposal that would be particularly valuable for clients, and are there aspects of the proposal that would be particularly challenging for CMs to meet?**

The Margin Group rightly considered the role of the CM in setting IM requirements for clients. We are supportive of Proposal 9.C which would require CMs to provide sufficient transparency and explanation of any additional margin charged to clients beyond CCP requirements.

- b. Do CMs currently provide any form of simulation tool, in addition to the tools provided by CCPs? For those who currently do not, what is the feasibility of CMs developing such tools? What functionality would be of most use to clients in CM-designed simulators?**
- c. On the proposed quantitative disclosure described in 9e), do you have supportive or alternate views on the information that should be provided and the format in which the information should be disclosed?**
- d. Do you agree that CMs should adopt an analytical framework for measuring the responsiveness of initial margin requirements for their clients, similar in nature to the proposed framework for CCPs described in Proposal 7? If so, in what ways might that framework need to differ from that used by CCPs, and in what ways might this depend on the type of CM covered?**
- e. Do you foresee any barriers or challenges to CMs implementing the proposed disclosures, such as cost, negative effects on risk management, or any potential overlap with traditionally proprietary information?**

No comment.

10. Please review the list of example CM-to-CCP disclosures provided at the end of Section 4.3.2.

- a. Would the information included in the proposed disclosures aid the CCP's own risk management processes? If not, is there alternative information which would be useful for CCPs to receive from members?**
- b. Is any of the information included in the proposal description either redundant or duplicative of information already available to the CCP, and thus of minimal value? Does any of the information included in the proposed disclosures differ by institution type?**
- c. Would collection of the information impinge upon current legal disclosure frameworks?**
- d. Do any of the example disclosures potentially overlap with traditionally proprietary information?**

Not applicable.

Conclusion

We appreciate the opportunity to address and comment on the issues raised by the Discussion Paper and will continue to work with the BCBS, CPMI and IOSCO on any specific issues which may assist in the ongoing review of the transparency and responsiveness of IM in centrally cleared markets.