May 14, 2024

CPMI Secretariat
Email: cpmi@bis.org
IOSCO Secretariat
Email: VMconsultation@iosco.org

VIA ELECTRONIC SUBMISSION

Re: Report on *Streamlining variation margin in centrally cleared markets—examples of effective practices*

To Whom It May Concern:

CME Group Inc. ("CME Group")[1] appreciates the opportunity to comment on the Committee on Payments and Market Infrastructures ("CPMI") and Board of the International Organization of Securities Commissions ("IOSCO") report on *Streamlining variation margin in centrally cleared markets—examples of effective practices* (the "Report").[2]

Chicago Mercantile Exchange Inc. ("CME") is a wholly-owned subsidiary of CME Group. CME is registered with the Commodity Futures Trading Commission ("CFTC") as a derivatives clearing organization ("DCO") ("CME Clearing" or the "Clearing House"). CME Clearing offers clearing and settlement services for listed futures and options on futures contracts, including those listed on CME Group's CFTC-registered designated contract markets ("DCMs"), as well as over-the-counter derivatives transactions, including interest rate swaps ("IRS") products. On July 18, 2012, the Financial Stability Oversight Council designated CME as a systemically important financial market utility ("SIFMU") under Title VIII of the Dodd-Frank Wall Street Reform and Consumer Protection Act. As a SIFMU, CME is also a systemically important DCO.

CME Group shares policy-makers goals of supporting the stability of the broader financial system, and thus supports CPMI-IOSCO's efforts to foster market participants' liquidity preparedness, including to meet variation margin ("VM") calls. CME Group also appreciates CPMI-IOSCO's approach of

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[1] As a leading and diverse derivatives marketplace, CME Group enables clients to trade in futures, cash and over-the-counter markets, optimize portfolios, and analyze data – empowering market participants worldwide to efficiently manage risk and capture opportunities. CME Group's exchanges offer the widest range of global benchmark products across all major asset classes based on interest rates, equity indexes, foreign exchange, energy, agricultural products, and metals. CME Group offers futures trading through the CME Globex platform, fixed income trading via BrokerTec, foreign exchange trading on the EBS platform.

[2] Committee on Payments and Market Infrastructures and Board of the International Organization of Securities Commissions, Report, *Streamlining variation margin in centrally cleared markets—examples of effective practices* [hereafter, "*Report*"] (Feb. 2024), *available at* https://www.bis.org/cpmi/publ/d221.pdf.

recognizing the effective practices set out in the *Principles for Financial Markets Infrastructures* ("PFMIs")[3] for central counterparties' ("CCPs") risk management, rather than setting out additional prescriptive proposals.

The BCBS-CPMI-IOSCO report on *Review of Margining Practices*[4] (the "Phase 1 Report") made clear that CCPs successfully supported the stability of the markets they clear and in turn, the broader financial system. Consistent with the findings of the Phase 1 Report, CME Clearing's VM practices proved effective and efficient in risk managing the COVID-19 volatility, as well as other recent market volatility events, while supporting the stability of its markets. CME Clearing ran its routine settlement cycles, one at both intraday and end-of-day for futures and options and one at end-of-day for cleared swaps, where VM is collected from and paid to Clearing Members, consistent with the effective practice identified in the Report of passing through VM.[5] CME Clearing also offers a functionality called "Combined Cash Flow", where a Clearing Member can elect to have its VM gains credited to its initial margin ("IM") account and can have VM losses debited from its performance bond account in the currency of need where collateral is on deposit.[6] Though VM flows were larger than average during these times of unprecedented volatility, CME Clearing did not utilize *ad hoc* settlement cycles. That is despite the fact that the CME Group Exchange Rulebook, consistent with CFTC regulations and international standards,[7] gives CME Clearing (like other CCPs) the authority to execute *ad hoc* settlement cycles. The last time the authority was used was for the IRS products cleared by CME Clearing in response to the market reaction following the UK referendum vote in 2016 and only with respect to IM calls not VM. At that time, CME Clearing did everything practicable to prioritize the stability of its markets, and the financial system more broadly, including supporting market liquidity by allowing for IM to be paid to CME Clearing using non-cash assets consistent with its collateral acceptance policy. By running routine settlement cycles and only running *ad hoc* settlement cycles in extremely limited circumstances, CME Clearing's settlement practices are highly transparent. This transparency facilitates market participants' ability to predict and manage liquidity requirements, which achieves outcomes consistent with the effective practice identified in the Report of providing information on VM practices.[8]

In contrast, as recognized in the Report, making multiple *ad hoc* VM calls a day can be extremely procyclical potentially causing inappropriate and unpredictable liquidity demands in times of stress.[9] However, CME Group believes it is important to emphasize that this is particularly true for *ad hoc* calls tied to hard thresholds based on mark-to-market moves or credit ratings which can be further exacerbated where mark-to-market gains are not paid out. These practices can put further financial stress on clearing members, particularly since they either cannot collect these additional funds from clients in the same

[3] Committee on Payment and Settlement Systems (later renamed the Committee on Payments and Market Infrastructures) and Board of the International Organization of Securities Commissions, *Principles for financial market infrastructures* [hereafter, "*PFMIs*"] (Apr. 2012).

[4] Basel Committee on Banking Supervision, Committee on Payments and Market Infrastructures, and Board of International Organization of Securities Commissions, *Review of margining practices* [hereafter, "*Phase 1 Report*"] (Sept. 2022), *available at* https://www.bis.org/bcbs/publ/d537.pdf.

[5] *Report* at pg. 4 (noting, Effective Practice 4).

[6] *Report* at pg. 4 (noting, Effective Practice 5).

[7] *PFMIs* at Principle 6, Key Consideration 4.

[8] *Report* at pg. 4 (noting, Effective Practice 6).

[9] *Report* at pg. 8 (noting, Effective Practice 1).

timeframe or if they do, the collection may place atypical liquidity strains on these clients.[10] With that said, CME Group cautions against the use of VM calls tied to these types of hard thresholds and echoes the effective practice set out in the Report of utilizing scheduled intraday VM calls, where appropriate, to increase predictability for market participants.[11]

CME Group appreciates the efforts of CPMI-IOSCO in assessing the existing practices and identifying possible effective practices to enhance VM practices in centrally cleared markets. CME Group supports efforts to foster additional market participant preparedness as it relates to meeting VM obligations and appreciates CPMI-IOSCO's approach of leveraging the PFMIs rather than creating additional overly prescriptive guidance. It is unlikely that prescriptive guidance would effectively recognize the unique characteristics of the markets cleared by CCPs and the impact of those characteristics on best practices for those CCPs.

We would be happy to further discuss our comments with CPMI-IOSCO. If any comments or questions regarding this submission arise, please feel free to contact me at suzanne.sprague@cmegroup.com or Sean Downey, Managing Director, Clearing Chief Compliance Officer, Enterprise Risk Officer and Head of Policy at sean.downey@cmegroup.com.

Very truly yours,

Suzanne Sprague
Senior Managing Director, Global Head of Clearing & Post-Trade Service

[10] *See Phase 1 Report* at pg. 32.
[11] *Report* at pg. 4 (noting, Effective Practice 1).