16.04.2024

BCBS-CPMI-IOSCO consultative report on Initial margin – SIX and BME response

General 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.**

   The presented policy proposals might lead to an increase in transparency for clearing members. It needs though to be borne in mind that the implementation of the proposals will require development or enhancement of the tools (e.g., margin simulation tool), using additional resources and/or further automatization of reporting (e.g., PQDs). This will lead to an increased cost of clearing. Thus, it is vital to take into account members' position which solutions are crucial to them and what is their ability to make use of the additional disclosures.

   From the set of proposals, we see the margin simulation tool as the most suitable measure to increase the transparency, however which also comes at the highest cost with possible negative effects through an increase in cost of clearing. We have doubts with regard to the PQDs related proposals. In our opinion the increased frequency of reporting might lead to a loss of quality with no significant value added for members (unless enhanced automatization is used, which again increases cost.) Additionally, since PQDs are retrospective and not forward looking there is a limited benefit for clearing members in the liquidity planning.

   Furthermore, some of the proposals related to the disclosure of margin model data might have a higher cost for the CCPs than benefit for CMs and Clients. In particular, the proposal 3.b referring to the disclosure of data used for the calculation of margin add-ons, as the volume of data used for these calculations is usually large, what makes it difficult to do a comprehensive replication by CMs/Clients.

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?**

   No additional aspect that should be covered from our point of view.

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 equal requirements and standards are important. One framework for all CCPs would be the most transparent solution. The requirements shall depend on the complexity of the CCP rather than the size. In case some aspects are not applicable to a given CCP (no such products/non-material volumes) they may be omitted in reporting.

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?

We do not see any interference of the proposal with bilateral margining.

Specific Questions

Proposal 1: CCPs should make Margin simulation tools available by all CCPs to all clearing members (CMs) and their clients.
Proposal 2: CCPs should ensure that margin simulation tools reflect all material components of the underlying quantitative methodologies.
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.

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

The main challenge in this respect is finding a balance between the cost of simulation tool (both implementation and operating costs) and the reliability of the results.

The tool would be of added value if it provides accurate results, i.e., similar to the margins actually requested by CCPs. More sophisticated tools will result in more accurate results but would also require processing of large amounts of data what might increase cost to a prohibitive level.

Moreover, it needs to be established what are members' needs and to what extent they will be able and willing to use the provided tools.

a. **Are there certain modes of access to CCP simulation tools which are less costly or more effective?**
In general, the web-based solution is less costly and better accessible than access via messaging protocol or using of native GUIs, when APIs integration cost needs to be considered.

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)?**

The following issues need to be taken into account:

- Lack of contractual relationship between a CCP and clients of CMs. This could be mitigated to some extent by clear disclaimers and legal measures proposed by the relevant Data Protection and Compliance Teams.
- Proprietary rights to the models by 3rd party providers/CCPs
- The simulation models by CCPs take into account portfolio view, thus single client margins might not be properly reflected.
- Limitations on clients' side from technical and knowledge perspective
- Another impediment is the challenge of developing by Clearing Members and ISVs real-time margin information, also for Clearing Members to control in real time which Margins will be requested at client account level by CCPs.

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?

The scenarios provided in the simulation tool should be the same as the ones used by the CCP, to ensure consistency between simulation tool results and the requested margin. We do not see any additional value in offering the users the option to customize their scenarios if the actual required margin is not aligned with the simulation. Additionally, the historical and hypothetical scenarios of the CCP are carefully selected, defined, and reviewed on a periodic basis.

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?

Certain add-ons have specific input variables (e.g., credit rating, wrong-way risk dependencies, etc.), which are internal, difficult to standardize, subject to dynamic updates and linkage to other systems and accordingly other input variables.

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.

Detailed model documentation is vital for the CMs to understand what drives the margins. Comprehensive information is published now in operational manuals, CMPI IOSCO disclosures and PQDs.

We do not however see a value added in disclosing the data used for the calculation of margin add-ons for legal reasons (potentially sensitive client related information) and technical reasons – very large amounts of data that would need to be made available.

One example of client sensitive date might be rating coefficient, which is derived from internal assessment of counterparty credit risk.

Policy Proposal 4: Anti-procyclicality
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.

APC tools are broadly discussed by CCPs as part of CPMI-IOSCO disclosures. We agree that this level of disclosure is to be continued.

Policy Proposal 5: PQDS
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.

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

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?**

An additional breakdown of margins into core IM and margin add-ons, as suggested in Table 5, could increase the transparency of the margin computation, and provide valuable information on the relative importance of the individual margin components and add-ons, respectively.

On the other hand, an increased disclosure frequency would only be of limited value for a member to anticipate the future changes of his margin requirements.

- The proposed additional data is not forward-looking but retrospective.
- Most of the portfolios underlying the disclosed daily IM requirement are not known to the member who reads the data (since they stem from other members)
- As it is not possible to ensure quality of data in case of daily disclosures, the incorrect data might lead to false decisions by clearing members and especially in case of market turbulence could potentially exacerbate the market stress.

Thus, we think that the current reporting frequency is appropriate.
Additionally, in the case of backtesting results, we see limited benefit in the reduction of the time lag to one week. Considering that backtesting result are based on a 12-month span, from week to week the result is going to have only little variation.

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?**

With regard to product-level back-testing results: Some CCPSs apply a portfolio margining rather than product-level margining, i.e. there is netting applied between long and short positions across different products within the same portfolio and thus there are no product-level margin requirements in place (and no product-level margin held) that could be back-tested.

As regards increased frequency of the publication: In order to provide high quality requirements for the publication of data, some level of human efforts and checks by specialists are necessary. A change to monthly or even daily publication frequency would significantly increase the publication effort and cost. Fully automated disclosures, on the other hand, do not appear to be prudent enough since they could (for cost reasons) not involve any human check before the publication.

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?**

No additional amendments that we see applicable.

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

We do not have such examples.

Policy Proposal 6: Margin responsiveness:
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.

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

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?**

Taking into account that model choices can lead to differences in how IM requirements respond to changes in volatility, we believe that a simple metric might lead to misinterpretation. Thus, if introduced, qualitative disclosures would be needed to explain the measure results.

We support EACH proposal to investigate alternative measures, which are more comparable and directly observable (e.g., measuring margin changes vs scenarios rather than volatility).

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.**

20 days - larger windows in general provide a better representation.

ii. **Observation period: one quarter or one year.**

1 year - larger windows in general provide a better representation.

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.**

No comment from our side

iv. **Volatility risk metric: Standard deviation or VaR (99%).**

VaR (99%) - the tail event is the representative measure.

v. **Volatility risk metric lookback period: 90 days or two years.**
- here an emphasise is given to the responsiveness of the volatility risk metric, hence the shorter lookback period.

c. **Are there other parameters where calibration decisions are necessary for consistent disclosure of either margin responsiveness or market volatility?**

No comment from our side.

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?**

Variety of utilized risk models and calibration routines and parameter set, as well as different implementation solutions, reporting routines, system flexibility will be a challenging for achieving harmonization.

Policy Proposal 7: Governance Framework
CCPs should identify and define an analytical and governance framework, appropriate to their business lines and risk profile, for assessing responsiveness within the broader context of margin coverage and cost, with the framework and parameter choices communicated to relevant authorities. The framework can be used by CCPs and relevant authorities to regularly monitor the performance of initial margin models and trigger the review of initial margin model parameters in case of need.

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.**

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

No comment from our side

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 from our side.

Policy Proposal 8:
Where CCPs make use of discretion (e.g., expert judgement) to override model margin requirements, CCPs should: **a.** Have in place clear governance procedures defining the triggers for the use of such discretion and undertake ex post reviews where such discretion has been applied. CCPs should clearly articulate and define the instances and areas where such overrides may be warranted (including clear definitions of the key decision-makers/who can perform overrides and the extent to which these adjustments are deemed permissible without, for example, requiring a material model change). It can similarly be important that the CCP establishes clear guidelines as well as processes which enable the CCP to identify and monitor the overridden risk variable or model output. **b.** Publicly disclose relevant information regarding the scenarios where discretion may be applied, and the governance procedures used in the application of such discretion. CCPs should proactively share the governance procedures for the application of model overrides in full with relevant authorities. **c.** Publicly disclose, through additions to the PQDs, the aggregate size and duration of manual margin overrides, as compared with unadjusted IM requirements. The disclosure could be supported by a qualitative explanation of the reasons for the override.

Cases of overriding the margins/manual interventions must be rare (for example rectifying the results of a clearing system error). Such cases shall be covered by a proper governance framework, including the approval levels. It needs though to be borne in mind that not all exceptions can be envisaged ex ante, thus the framework shall be broad enough to cover for such cases.

Proposal 9: CM to client transparency	
CMs should ensure their clients have sufficient understanding of their margin requirements, including the following:	
a.	CMs should ensure their clients have sufficient understanding of CCP margin requirements. CMs should facilitate clients in accessing CCP-provided margin simulators.
b.	CMs should identify and define an analytical and governance framework, appropriate to their business lines and risk profile, for assessing margin responsiveness, alongside other key factors such as counterparty credit risk, when adjusting client margin requirements.
c.	CMs should provide sufficient transparency to their clients regarding the mechanism by which client add-ons are calculated. This should include documentation containing a detailed description of the calibration of any client add-ons (e.g., through the application of margin

	multipliers, buffers or internal margin models) and how the triggers or thresholds for their use are set. This understanding should be facilitated through the provision of CMs' own simulators, where appropriate, or private disclosures of the margin requirements clients may be subject to under different scenarios.
d.	CMs should, without the need for a client request, inform the client with appropriate notice when they are adjusting their calibration of client margin add-ons, and should provide sufficient transparency to their clients when margin requirements have been adjusted relative to those set by the CCP.
e.	CMs should disclose to their clients backward-looking information on the maximum, minimum and average differences between client margin requirements set by the CM and the margin requirements of the CCP over a defined period of time.

9) 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 successful implementation of the measures proposed would largely be dependent on the level of sophistication of the clients, the IT stack and reporting functionalities. Large Sell-Side, medium Sell and Buy Side clients should have no issue in adoption of the measures; however, smaller buy-side clients may find implementation of the below more difficult due to lack of resources in funding and technological capabilities.

No further comments on policy proposal

Policy Proposal 10: CM to CCP transparency
CMs should disclose additional metrics to the CCPs of which they are members on a quarterly basis with a [one/two]-month lag. Such as:
• List of memberships of other CCPs
• Total IM deposited across all CCPs, split by collateral type
• Total IM required across all CCPs, split by gross and net customer margining, if applicable
• % of total IM required by Top 1, Top 2 and Top 3 CCPs (depending on number of connections),
• as a peak and average over the quarter – determined based on initial margin required per CCP
• Maximum and average aggregate IM call on any given business day across all CCPs over the quarter
• Maximum and average total VM paid on any given business day across all CCPs over the quarter
• Total default fund deposited across all CCPs, split by collateral type
• Total default fund required across all CCPs

	• % of total default fund required by Top 1, Top 2 and Top 3 CCPs (depending on number of connections) – determined based on default fund required per CCP
	• Total non-prefunded resources committed across all CCPs (e.g., powers of assessment/cash calls)

Q10a: 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?

Yes, the information can support credit risk assessment of a CM. A framework would need to be established allowing for a systematized usage of provided metrics.

Q10b: 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?

We do not see any duplication or redundancies of information in the proposal.

Q10c: Would collection of the information impinge upon current legal disclosure frameworks?

No comment from our side.

Q10d: Do any of the example disclosures potentially overlap with traditionally proprietary information?

No comment from our side.