**Anexo 1**

# ASIGNA, COMPENSACIÓN Y LIQUIDACIÓN

**DOCUMENTO QUE CONTIENE LAS RESPUESTAS DE ASIGNA, COMPENSACIÓN Y LIQUIDACIÓN, AL CUESTIONARIO DERIVADO DEL RESULTADO DE LAS ACTIVIDADES DEL GRUPO DE TRABAJO CPMI-IOSCO REALIZADAS DURANTE 2019 Y 2020, CON RELACIÓN AL ACCESO Y LA PORTABILIDAD DE LOS PARTICIPANTES A LAS CONTRAPARTES CENTRALES.**

**Feedback on the discussion paper**

The CPMI and IOSCO welcome comments from interested stakeholders – including CCPs, direct clearing participants, clients of clearing participants, buy-side, market participants, academics and the generalpublic – on the different topics covered in this discussion paper by 24 January 2022. Responses should be sent via email to the CPMI Secretariat (cpmi@bis.org) and the IOSCO Secretariat (consultation-06-2021@iosco.org). Responses will be published on the websites of the BIS and IOSCO unless respondents expressly request otherwise. Commercial or other sensitive information should not be included in the submissions, or may be included, with redactions for publication clearly noted.

The purpose of the paper is to elicit comments and feedback from a broad range of interestedstakeholders. The CPMI and IOSCO particularly welcome feedback on the following questions:

Access (Section 2)

<u>Design of direct and sponsored access models</u>

1. Do you agree with the observation in the discussion paper that the direct and sponsored accessmodels are designed for and generally used more by larger and/or more sophisticated clients?

**Yes, due to their size it is more feasible that they comply with the models and liquidity demanded by CCPs to cover the risk of their positions.**

**We consider that there is a lack of dissemination and in fact, as mentioned in the discussion, we mainly believe that the legal restrictions of compliance and requirements force us to look for the need for an intermediary. It is important to mention that although these requirements are barriers to direct access models, they are necessary to mitigate the risk of non-compliance.**

**On the other hand, from the point of view of compensation agents, it is difficult to accept a model that allows the participation of small and medium-sized clients, who, due to their characteristics, have a higher risk profile of non-compliance and that additionally the benefits obtained by providing these services are limited. This implies an increase in entry costs, which discourage the participation of this type of customers.**

2. Could there be any other solutions that would facilitate access, either through greater use ofsuch access models by small and medium-sized clients, or through some other solution?

**The use of "sponsors" seems like a good idea. Perhaps in the sense of portability, some Credit Default Swap derivative contract could work as an additional insurance or on the other hand, schemes that require greater risk coverage (i.e. surplus contributions) could work compared to the traditional model of clearing services through a CCSP.**

Barriers

3. Do you agree with the findings in the discussion paper that direct and sponsored access models are used more for certain types of products (eg repos) than for others? Do you agree with the reasons described in the paper for why this is the case? Why/why not?

**In general, we consider that yes; it is a model that, currently, has only been tested by some collateral and assets. However, the idea has the potential to be applied to various assets.**

**Additionally, the difference in the products that the CCPs compensate and settle, makes the viability of direct access or through CCSPs, consider risk coverage taking into account the type of product with the type of access and the type of client.**

**The expansion of such models to a particular asset depends on market liquidity, such is the example of repurchase agreements.**

Challenges related to direct and sponsored access models

4. Do you agree that direct and sponsored access models have the potential to diversify the risk profile of the direct clearing participant basis of a CCP by introducing new types of direct participants? Why/why not?

**To a certain extent, the introduction of new intermediary participants allows risk diversification, however, it should be mentioned that the door is also opened to increase concentration risk, as the document expresses it, when there are few "sponsors". For the Mexican market, there are very few institutions that offer this service. The above is true if there are enough sponsors to avoid concentration problems.**

**Additionally, the direct obligation of the participant with the CCPs saves costs and even excess margins that some CCSP charge for being responsible for the client's obligation to the CCP, together with the requirement of the Compensation Fund that contributes for issues of mutualization of the loss in case of default.**

5. Do you think that CCPs have introduced sufficient safeguards to prevent risk transmission from direct participants using direct and sponsored access models? Why/why not? If not, what additional safeguards do you think are necessary?

**It does not apply to the Mexican market, since there are no direct access models or through a sponsor.**

6. Do you think that sponsors are properly incentivized to closely monitor the activity of their sponsored participants (ie the direct participants)? Why/why not? If not, how do you think sponsors could be properly incentivized?

**We believe that, in this sense, they are not motivated. Surveillance and monitoring come at a cost that further reduces the net profit margin.**

**Through regulation (mandatory and with tax incentives). By contributing to the compensation fund they would be sufficiently motivated to monitor direct**

**participants since in a default event considering a mutualization scheme, their contributions would be at risk.**

7. Do you think that the number of sponsors is limited? Are you concerned about sponsor concentration risk? If so, is this because it is difficult to find a sponsor? Are there any other reasons?

**We consider that the risk of concentration can be high for three reasons:**

**The first one, since it is a model that so far has not reached all regions (it is a new model to a certain extent), many financial institutions that act as "sponsors" are still in the testing phase in terms of benefits-risk.**

**The second, returning to the issue of risks, the infrastructures that carry this responsibility to mediate the CCP, can seriously affect the local and global financial system, if all the necessary measures are not considered before the practice spreads. Some limitations (which in turn are necessary for this purpose) are regulations regarding compliance with standards and best practices by market infrastructures.**

**Finally, the last reason for our consideration must do precisely with the fact that the development of the "sponsor" business model may not be profitable compared to the requirements to be met and the inherent risk.**

8. Do you think that CCP rules adequately address the issue of sponsor default? If so, what are the CCP rules that adequately address this issue? If not, what kind of CCP rules are required to address this issue?

**We consider that it is an issue that may have improvements due to the experiences observed in the different markets, it is necessary to incorporate some measures of sponsor concentration risk considering emerging economies with few participants that offer this service.**

Testing

9. Have you participated in default management exercises that test direct and sponsored access models?

**Not at the moment.**

10. Without providing identifying information, what has worked well in such exercises? What has not? Do you have recommendations as to what could be improved for such exercises?

**The current regulation does not contemplate direct access models.**

Additional considerations

11. Please describe any additional factors that may be impacting the activity and uptake of direct and sponsored models that are not considered in this paper.

**Systemic risk. In general terms, there may be some barrier from the regulatory perspective based on an increase in financial instability that avoids following these models by the authorities. In this sense, we consider that a higher level**

**of operational detail and risks is needed that accurately details the process of the service through the CCPs to these access models.**

12. Please provide any additional comments with regards to the impact that direct and sponsored access models have on access to client clearing.

**They are very good proposals, although for some CCPs would represent certain technological and economic difficulties related to development, adaptation and implementation of access and sponsor models. On the other hand, it would provide an incentive to increase the participation of more clients in direct compensation activities, reducing the risk from the entry of new participants ("sponsors"), making access more efficient.**

**Finally, the immediate impact is that the CCSPs would be affected in their income, putting at risk in some cases their continuing to participate in the market under this figure.**

13. Please provide additional comments with regard to access to client clearing more generally.

**Without a clear management of the differentiated risk to this type of clients with the proposed access models, it could generate an incorrect risk measurement that affects the CCPs in the event of any default event.**

**Porting (Section 3)**

<u>Risks from not porting</u>

14. Are there any additional risks or potential harm associated with not porting following a clearing participant default, which were not described in the discussion paper? If so, please describe such additional risks and/or harm.

**The paper fully describes the types of risks associated with non-carry-over.**

**There is a credit and liquidity risk generated by fulfilled clients if they do not have direct access to the CCP or cannot be transferred in a reasonable time to a fulfilled CCSP to settle their obligations.**

**Additionally, the market risk associated with the movement of derivative prices generated by a possible chain effect that leads compliant participants to wish to close their positions at default event, generating a systemic risk.**

**Therefore, for the CCSP as for the transferred client, there are acceptance risks in both directions that, if they are not well reflected with the legal support, could generate a greater problem that would be avoided with the appropriate, known, and accepted times and mechanisms. for all.**

15. Potentially effective practices. Do you agree with the two tools identified in the discussion paper as potentially successful porting practices? Are there any other tools that should be identified as potentially effective practices?

**We consider it appropriate to have structures that are flexible to allow direct connection of the client to the CCP, however, in the case of Mexico it can be a complex task. Mainly because incorporating these structures represents a high cost for their development and implementation, both technological and**

**economic.**

**On the other hand, regarding the second tool, it is possible that the client's credit evaluation is acceptable by the CCSP at the time of the prior agreement, however, the profile is subject to changes and more likely under default conditions, which could make transfer difficult even after preliminary analysis has been done. However, what is certain is that this analysis could increase the probability of success**

**We consider that a possible alternative could be to grant a period to the non-defaulted CCSPs, to carry out a credit analysis of the non-defaulted clients susceptible to transfer and during this period the defaulted CCSP is forced, through its channels of communication with the CCP, clients can continue to fulfill their obligations directly.**

**Additionally, as mentioned in the document, incentivize clients so that in the event of a default, they have a prior agreement with at least two CCSPs.**

16. What additional approaches do CCPs use to pre-emptively identify a backup CCSP? What incentives can be provided to assist the development of alternative/backup CCSP relationships? Are there any other considerations for alternate/backup CCSPs not set forth in the report?

**The restrictions that each CCSP consider accepting new clients, the risk appetite and the client risk profile must be verified continuously. Another additional approach may be the time it takes for a CCSP to conduct credit analysis on a client. Finally, a credit prequalification per customer could also be assigned.**

**We consider that a basic consensus guide of requirements should be implemented to identify both the alternative CCSPs and the clients that agree to an acceptance of the parties, in the event of a transfer event.**

17. Are there other considerations for having a game plan that were not described in the discussion paper?

**Probably a system that assigns a credit or solvency rating to each client, as well as acceptance criteria by client CCSPs, choice of costs and quality of service that clients seek, could help classify and organize the game plan in terms of risk aversion and acceptance of each CCSP.**

18. In addition to those outlined in the paper, what attributes of account structures facilitate or impede porting client accounts?

**We agree what has been described regarding the issue of standardization of accounts between the different CCSPs and the CCP for greater ease in portability. On the other hand, the information of the global accounts is perhaps the most difficult to obtain. In this regard, it is difficult to monitor the risk of some of the clients and anticipate a default that can extend to the CCSP or "sponsor". Despite the disadvantages described above in terms of portability, this account structure is accepted and is part of local regulation.**

19. Are some client accounts not suitable for porting?

**Global accounts, although they are standardized in their monitoring for the CCP, not so with each CCSP because there should be a type of standardization among them on this type of accounts that help portability in case of need to be transferred. Small accounts we consider are not suitable for portability, because many do not have enough capacity to reduce their collateral and restore them in the short term, a situation which they must comply in case of subsequent breaches if a domino effect is triggered with.**

20. Does holding excess collateral and the ability to make direct payments improve the probability that a client will be ported successfully or are there impediments to using this collateral?

**We agree that this excess helps clients to be received with greater acceptance in the CCSPs to which they would be transferred. The more liquid resources a non-default client has, less the time it would take for the CCSPs to carry out credit profile evaluations, since they would have a stronger financial position in the event of a default.**

21. What is your view of a client consent mechanism that could be used to facilitate porting, if permitted under applicable law?

**We consider that this would be appropriate, since it would shorten transfer times to the CCPS, from a faster credit assessment of the fulfilled client based on the available information, however, the specific conditions in which the market operation and settlement are carried out at the time of the change would have to be detailed.**

22. Are the potentially effective practices described in the discussion paper consistent with prior porting experiences?

**In Mexico, there has never been a default (real experience), however, simulated tests have been carried out in which some customer transfer options have been tested.**

**We believe that there will always be cases that will have to be addressed, as well as doing them in masse, which may present areas of communication opportunity and response times by the parties involved.**

23. Are there any barriers to implementing potentially effective porting practices that are not described in the discussion paper?

**We consider that the local regulations of each market about handling personal data and client consent will have to evolve so this will be a very similar practice in different countries. Nowadays, we consider that there are many opportunity areas related to legal, technological and operational issues.**

Communication and coordination

24. Are there any additional communications by the CCP or the defaulting CCSP that may increase the probability of porting client accounts?

**As already mentioned, a transfer consent agreement (including information) is the most appropriate at the beginning of the compensation activities, so that in case of non-compliance with the current CCSP, the backup CCSP client's choice has more elements so that the risk assessment process is as efficient as possible.**

25. Are there additional actions CCPs can take following a clearing participant default to coordinate that are not set forth in the discussion paper? Are there any limitations on coordination that are not included in the paper?

**In some way, the final or extreme scenario was exposed, which will be the closing of client positions, however, at this point the parameters to make things work will always be market conditions, which will surely be a challenge.**

Harmonization

26. Are there additional items CCPs can harmonize or standardize during business as usual that are not outlined in the discussion paper? Are there any factors that may impede harmonization or standardization that are not provided in the paper?

**We believe that more detail is needed as the current level does not have the necessary depth in terms of operational and legal terms.**

Notable issues to consider when developing a porting protocol

27. Are there additional regulatory requirements that could impede porting? Can such impediments be addressed or mitigated through action prior to the CCSP's default?

**The monitoring and communication between the CCP and the CCSPs must be sufficiently clear, which allows anticipating a possible client default, as well as the current global and local regulation, for each type of client (i.e pension funds).**

28. Are there any additional factors that should be addressed in testing exercises?

**We consider that since they are tests, there is always the risk of not reflecting what would really happen in a real case, so we consider that, although the first tests should be done with a precise and prior communication, the subsequent ones should be executed in a surprising way.**

29. Please provide examples of good disclosure practices from your perspective.

**The disclosure of information by CCPs and CCSPs must show the necessary data that allow interested parties to know more precisely issues related to concentration, depth, operational and financial risks, as well as the strength and priority of the use of resources in the network security in case of non-compliance.**

**In addition, we consider that publishing relevant and updated information on the website is a good practice since interested parties find out first-hand about the information.**

30. Are there other arrangements a CCSP can make to ensure that, post default, the CCSP can help coordinate porting at multiple CCPs if the CCSP is a non-defaulter? If the CCSP defaults, what arrangements can the CCSP make to facilitate the porting of its clients?

**Consider that the main priority is the intervention of the CCSP with trained personnel to give certainty to customers and continuity in their operation with a view to being transferred. Likewise, provide as quickly as possible the guarantees of the fulfilled clients to other CCSP, including the excesses on them.**

**Lastly, providing information from a constantly reviewable monitoring of the overall risk profile of the non-default customer, like a credit rating, this rating service could be made mandatory at least once a year for each customer and rating services would represent additional revenue for the CCSP.**

Suggested next steps

31. Please provide feedback on the suggested next steps for consideration. Do you agree that these issues warrant further consideration by CCPs, CCSPs and/or clients? Are there additional issues that may warrant further consideration?

**We consider that the exposed topics should be reviewed in greater depth. Particularly in Mexico, in Derivatives market there have been reviews with CCSP to evaluate the available options that exist regarding client portability, this topic is very relevant, and they have been detected some barriers difficult to overcome in this regard.**
**.**

**Finally, in the case of this evolution in access to CCPs and maintaining the role of CCSPs, it should be always sought to encourage orderly growth to avoid risks that are not present today.**

*****