MR: Market Risk
BO: Back Office
FO: Front Office
CR: Credit Risk

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

Access (Section 2)

Design of direct and sponsored access models

1. **Do you agree with the observation in the discussion paper that the direct and sponsored access models are designed for and generally used more by larger and/or more sophisticated clients?**
   Yes, because smaller clients only want to make smaller trades and aren´t interested in understanding all the waterfall resources requirements which derive to more complex models).
   In México, any natural person (*persona física*) can´t access this market so easily. Besides costs, only few Clearing Members accept this kind of persons, only prequalified clients (Private Banking) have access. How can they get to understand the market if they don´t have access.

2. **Could there be any other solutions that would facilitate access, either through greater use of such access models by small and medium-sized clients, or through some other solution?**
   Direct and sponsored access models require training and technological implementations, as such it is not always suitable for by small and medium-sized clients.
   We can´t think of any other alternative than training and technology, and these require investment. Is an analysis about benefits versus costs.
   Clearing Members must have profitability models in order to know which small clients are worthy to be accepted.

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?**
   N/A, would not know, our CCP only trades derivatives not repos, and any securities management is as per The Mexican Derivatives Market Regulation.
   We manage cash and titles investment but our regulation is the Mexican Derivatives Market.

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?**
   FO: Yes, however our CCP’s Clearing Model is not for direct Clients per se, Small Clients regularly reach the CCP through a Clearing Member or an Exchange Member who is able to offer third party execution and Clearing services.
   MR: Yes, to diversify cover one, in our case we are very few participants, and the cover one is only diversified by a few, paying a lot, making that the participation in derivatives market requires a lot of liquidity.

BO: Our CCP doesn´t have a direct client model. Small clients couldn´t participate directly because they require the technological infrastructure, but maybe there exists viability when the financial cost worths for larger clients, it must be reviewed that some of them already had developed their access to the market as market makers or traders (half of the effort), maybe they can invest to develop this communication with the CCP besides the market.

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?**
FO: Yes, the CCP's Security Safety Net is designed with very robust & conservative Risk monitoring, under the supervision and approval of our local regulators, currently in compliance with international standards.
MR: Yes, there exist six levels in order to pay any default, is strong but the assumptions are important.

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?**
FO: They should be interested in close monitoring their sponsored Participants, as that would be the best way to mitigate risk concentration within themselves. Nonetheless, this should be the interest of both Sponsors and CCP.
MR: No, sometimes is common to think is only responsibility of the CCP. CCP must incentive in more capacitation (training) to clarify the implications of not doing it. We don´t have direct client model in Mexico.
BO: We have monitored clients, and decided not to have them in order to improve our financial health, but it is important to incentive the rest of our Guild.

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?**
FO: Yes, our CCP's product offering is limited; our CCP's principal competitor offers Mexican indexed products (Centrally Cleared 28 day TIIE IRS, Peso Futures, TIIE *de Fondeo* Futures, *etc.*) that compete with our local offering, making it extremely difficult to have new participants in this markets.
MR: Yes, yes, is difficult, this question is to be answered by the CCP (Asigna). An effort to have more clients is needed, the problem is that our CCP competes with a big one, primarily because they can clear Mexican products (Swap TIIE) and is more difficult, but effort must be done to acquire more clients.
BO. In addition, CCPs as LCH or CME have a large amount of clients and products, to acquire direct participants we must refer to this kind of CCPs and follow their model. Maybe analyze the option limiting kind of obligations but incentive more participation in the default fund (eg *fideicomitentes* C).

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?**
Yes, it is well defined. Regarding the precision and depth of the accuracy of these rules, please contact the CCP directly. The CCP owns these rules and this is a direct question for them.
Besides, it is not contemplating technological and operative risks.

Testing

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

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?**
    FO: Communication between CCP and its Participants has played well, and we always respond with comments and observations looking to improve the safeguard's design, targeting more realistic and possible outcomes.
    MR: As those exercises show this could be real, they make you aware of the time line where events can occur, they give consciousness that events can happen simultaneously versus the written theory. With this assumption a lot should be rewritten.
    BO: Proprietary position can´t be forced to buy on certain auctions. Mutualization doesn't contemplate that kind of participation. Scenarios and assumptions must be realistic.

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.**
    FO: Product and Operational Services as well Incentive Programs must improve in order to attract Clients and Sponsored Client Models.
    MR: Every model change must be proved in order to estimate impacts in a daily basis, and after these things can be approved. We need the whole picture.
    BO: Before we adopt a new model or product, market studies must be done, they must adequate to our local market.

12. **Please provide any additional comments with regards to the impact that direct and sponsored access models have on access to client clearing.**
    FO: The CCP must take into consideration the opinion of all the Clearing Member's Operations Teams FO included, not only those who participate in its different Committees.
    MR and BO: The CCP must take into consideration the opinion of all the operative departments of the Clearing Members, forum for Front Office is important.

13. **Please provide additional comments with regard to access to client clearing more generally.**
    BO: If there exist clients that don´t accomplish certain requirements of the new Clearing Member, porting only can be a temporal solution in order to follow the Mexican derivatives regulation but it is not a long term solution.
    MR: Please refer to the rest of our answers.

Porting (Section 3)

Risks from not porting

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.**
    MR: The paper describes something such as *timing* problems, speaking of porting is important that the CCP can port the guaranty fund + collateral directly to the new Clearing Member, in order to make the process more efficient, it´s impossible that the client pays more guaranty fund because the AIMs (Initial margin) will be liberated until T+1.

(Game plan) There are some Clearing Members that don´t accept clients without previous information complicating the operative process, regulatory purposes vs reality are important to collate.
BO: The paper describes different alternatives but technology is a stopper above all speaking of Mexican market, we can expect slow transfer vs the one described in the paper. A lot of manual processes must be corrected.
CR: In a market where Clearing Members are reduced to a limited number, information shared from clients must be taken into consideration (confidentiality issues), as well as policies, risk appetite and concentration risk.

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?**
Please refer to the previous answer.
In addition, one alternative should be the following: if a client belongs to different Clearing Members but to the same CCP, CCP must transfer cash, collateral and guaranty fund automatically, they could use an automatic file to upload the old CM (Clearing Member) data the new one.
CR: Yes, to reiterate that due to the limited information that can be shared (confidentiality) the response capacity in the event of a transfer is limited.

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? FO: N/A question applies to the CCP.**
FO: Our Market is very small and there are not many available participants as to assert which is the best backup CCSP.
BO: The backup Clearing Member must not ask for any fee, until they have a real transfer.
CR: As limitation exists because for large clients costs represent less impact, for small clients a different transfer process should be developed taking into consideration the payment until it is a real transfer (In agreement with BO).

17. **Are there other considerations for having a game plan that were not described in the discussion paper?**
FO: Internal policies, Client acceptance criteria, and Business Type appetite and KYC file transferability, should be considered as they tend to differ between CCSP's/Clearing Members.
BO: Internal policy of each Clearing Member, is not homologated, further analysis must be considered because this could be a stopper.
CR: Returning to the answer to question 14, in a small market in which the internal clearing partners have specific policies and procedures for this operation, assuming the transfer of clients considers greater concentration risk as well as exceeding their risk appetite.

18. **In addition to those outlined in the paper, what attributes of account structures facilitate or impede porting client accounts?**
At *Asigna* (Mexican Derivatives CCP) we have 10 digit accounts. Only the first five digits are homologated, the next five are customized by the Clearing Member, so if a case of porting merges, the new CM won´t have this automated homologation. In addition, not every CM clears all of the products, e.g. some CMs only trade futures and options, but swaps. It´s impossible to port clients who trade swaps to a CM that has not developed these products in their systems
In addition, we are few members, it makes thing worse.
CR: In line with the previous answer.

19. **Are some client accounts not suitable for porting?**
FO: Any Client can should be suitable for porting, however the Receiving CCSP might not be able to receive, in the long term, a certain type of Client due to its Client Acceptance Criteria or Rating.
MR: Yes, for example when a Clearing Member only accepts Financial Institutions (legal persons) and another CM has natural persons (*personas físicas*), if the latter defaults, there is an inconvenient accepting this kind of persons.
BO: *MexDer* and *Asigna* have develop a concept similar to omnibus accounts, called "*Cuentas globales nacionales*", not every Clearing Member has the technology to manage these accounts (fiscal retentive, *etc*.).
CR: According to MR. It may be that a Clearing Member does not have methodologies for the acceptance of all types of clients within its processes.

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?**
Yes, it is easier for the CCP to transfer it´s managed funds than the Clearing Member.
Clients can´t pay directly to the CCP, not in our market. Excess collateral is managed by the CM, not by the CCP.

21. **What is your view of a client consent mechanism that could be used to facilitate porting, if permitted under applicable law?**
To facilitate porting, the consent could be given contractually in advance. It would be necessary to review with the CCP if regulatory changes are necessary to consider it.
In the same way it must be considered restrictions on the operation of Clearing Members regarding the type of Clients that we accept according to the administration policies risks.

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

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

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?**
Our Mexican Derivatives CCP (*Asigna*) must consider in its regulation to accomplish certain communication channels, e. g., which kind of basic information should the default Clearing Member should give in order to admit these clients in the new CM
A lot of information has been feed backed to our CCP as a result of waterfall drills, besides the regulation must be rewritten, we insist that theory is a lot different from reality.

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?**
The direct transfer we already mentioned.

Clients must participate in the waterfall drills, they must have a guide to know how should they act, the Clearing Member can´t give them this guidance if the regulation doesn´t specify these matters as we mentioned in the previous answer.

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?**
    Answers in 24 y 25
    Additionally, client's confidentiality could be a stopper when porting. The CCP can´t transfer this information that only the Clearing Member knows.

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 proportional part of the default fund and minimum capital that the Clearing Members gives to the CCP for each client guaranty. Accepting new clients increases liquidity requirements that are difficult to gather immediately.
    Each CM has different fees, not every client can me comfortable with this.

28. **Are there any additional factors that should be addressed in testing exercises?**
    Same answers already mentioned.
    Additionally, Scenarios and assumptions that the CCP will use in a drill, must be realistic and analyzed by the internal departments of each CM. Make the clients participate, is important.

29. **Please provide examples of good disclosure practices from your perspective.**
    As the Principle 23 and 14 speak to the types of disclosures FMIs should make to their participants and beyond, the answer should be provided by the CCP (Asigna).

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?**
    Already mentioned.
    We should keep record if this process internally, in order to know an execution line congruent with the regulation.
    If the CCSP defaults, what arrangements can the CCSP make to facilitate the porting of its clients?
    CM must give all the information about its clients to the CCP, especially about the self-managed resources such as add on guaranties.

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?** Yes
    Are there additional issues that may warrant further consideration?
    As answered above.