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Via Electronic Submission

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Re: Transparency and responsiveness of initial margin in centrally cleared markets – review and policy proposals

Dear sir/madam,

Cboe Global Markets (Cboe) appreciates the opportunity to provide comments on the above-referenced report ("the Consultation") on initial margin practices in centrally cleared markets.[1] The Consultation outlines a set of proposals aimed at providing additional transparency in cleared initial margin (IM) models. Specifically, BCBS/CPMI/IOSCO propose all central counterparties (CCPs) make margin simulation tools available to clearing members and clients, and incorporate at a minimum, historical and hypothetical market conditions for current and hypothetical portfolios, among other features. The consultation also calls on CCPs to disclose additional data more frequently, including a new standardized measure of margin responsiveness, as designed by BCBS/CPMI/IOSCO.

Cboe's wholly owned clearinghouse affiliates include Cboe Clear Europe (CCE), a pan-European CCP licensed by the Dutch Central Bank clearing cash equities, depositary receipts, ETFs and equity derivatives and Cboe Clear Digital, a CFTC-licensed designated clearing organization clearing derivatives on digital assets. Cboe Clear Europe and Cboe Digital have a vested interest in ensuring the stability, transparency, and efficacy of risk management models and regulatory frameworks governing our clearing operations. In assessing the implications of IOSCO's margin practices recommendations, however, it is imperative to recognize that financial markets have generally proved resilient and that many clearinghouses did not encounter problematic changes in IM during the periods of volatility that triggered

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[1] See Basel Committee on Banking Supervision (BCBS), the Committee on Payments and Market Infrastructures (CPMI), and the International Organization of Securities Commissions (IOSCO), January 2024, "Consultative report" Transparency and responsiveness of initial margin in centrally cleared markets – review and policy proposals," available at: https://www.iosco.org/library/pubdocs/pdf/IOSCOPD757.pdf

this Consultation (i.e., the market tumult of March 2020, induced by the COVID-19 pandemic, and the volatility witnessed in commodity markets in February 2022). In the case of the COVID-19 volatility BCBS/CPMI/IOSCO found that there were no widespread concerns about counterparty credit risk.[2] In the case of the elevated volatility in commodity markets in February 2022, the impacts were to a narrow set of derivative products in energy and agricultural goods, which Cboe does not offer.

Cboe questions the usefulness or need for these recommendations to be applied across all market scenarios and product offerings. Even assuming our markets and products were the issue of concern, which we realize they are not, we harbor reservations regarding whether the proposed measures would consistently yield actionable insights and positive outcomes across various cleared markets and jurisdictions. Of particular concern are the detailed recommendations pertaining to margin simulation tools and proposed responsiveness measures. While theoretically beneficial, we caution against overreliance on such tools. CCPs must have the flexibility to design margin models that ensure the safety and soundness of the risk management process and that do not inadvertently stifle market dynamics or unduly influence trading behaviors. Despite a few outlier cases, this is a balance that CCPs have successfully managed for decades. The reality is that extraordinary market events occur, and CCPs need flexibility to respond to new challenges as they arise. The pursuit of additional transparency should not inadvertently restrict the ability of CCPs to properly carry out their risk management responsibilities, especially during extraordinary market conditions.

In light of these considerations, we urge policymakers to reflect on the unique market dynamics and product characteristics prevalent within their jurisdictions before considering these recommendations. A nuanced approach is essential to ensure that regulatory frameworks remain agile, adaptive, and conducive to fostering efficient and resilient markets. In Appendix I below we share more specific feedback and concerns.

We look forward to continued dialogue on these matters to safeguard the integrity of financial markets.

Sincerely,

Angelo Evangelou
Chief Policy Officer
Cboe Global Markets

2 The consultation notes recent policy recommendations stem from a review conducted by BCBS/CPMI/IOSCO following the market tumult of March 2020, induced by the COVID-19 pandemic, and the volatility witnessed in commodity markets in February 2022 after the Russian invasion of Ukraine. While these periods resulted in large increases in aggregate margin requirements and posed challenges for market participants, financial markets exhibited resilience "with no widespread concerns about counterparty credit risk" as observed by BCBS/CPMI/IOSCO.

Appendix I

Margin simulation tools

> ***IOSCO Proposal 1:*** *Margin simulation tools, commonly used by market participants to estimate margin requirements, should be made available by all CCPs to all clearing members (CMs) and their clients.*
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> ***IOSCO Proposal 2:*** *Margin simulation tools should include, at a minimum, functionality allowing the following: 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.*

Cboe Response

Many CCPs already offer margin simulation tools to their clearing members to allow the estimate potential margin requirements of their portfolios. For instance, Cboe Clear Europe (CCE) provides margin simulation tools pursuant to EMIR requirements and has found there is little client demand.[3] Therefore, we question whether the additional margin simulation tool functionalities – and associated investment required – described in the recommendations would create demand for these tools or simply impose unnecessary costs. Indeed, the expenses associated with developing enhanced margin simulation tools is not trivial. In some instances, CCPs like Cboe's clearing entities may not own or have access to the data that would underpin a dynamic margin simulation tool while other CCPs would be more readily able to offer such tools.

Additionally, we question the usefulness of requiring hypothetical market scenarios in widely accessible margin simulation tools, given the vast and potentially infinite number of scenarios that could be incorporated. These hypothetical scenarios can vary based on a range of factors including overall products and trade flow of each individual market participant, which in turn can lead to markedly different simulation results. In other words, it is not clear whether the proposed enhanced margin simulation tools would be more effective or useful.

CCP Disclosures

> ***IOSCO 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.*
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> ***IOSCO 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.*
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> ***IOSCO 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.*

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[3] Under EMIR Refit, "A CCP shall provide its clearing members with a simulation tool allowing them to determine the amount of additional initial margin, on a gross basis, that the CCP may require upon the clearing of a new transaction. That tool shall only be accessible on a secured access basis, and the results of the simulation shall not be binding." See Official Journal of the European Union, June 17 2019, EMIR regulatory fitness and performance program (Refit), available at, https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:32019R0834&from=EN

Cboe Response
Clearing members are not only vital to the process of central clearing, they are vital customers in what is also a commercial relationship that we strive to maintain and develop. In short, clearing members are our customers, and we want to serve their interests. To the extent our clients are interested in additional information with respect to our models we are confident they will pursue those requests directly, and we make every effort to provide additional information when possible, including as it relates to anti-procyclicality tools. Therefore, we question the necessity for additional public disclosures given this dynamic with our clients.

Regarding the proposal to provide additional disclosures on a more frequent basis, we urge IOSCO to consider where mandating additional disclosures could put sensitive and proprietary information at risk. We believe margin model documentation made available today under existing frameworks for the US, EU and UK CCPs is already sufficient.

Responsiveness Measure

> ***IOSCO Proposal 6:*** *CCPs should disclose a new standardized measure of margin responsiveness, as designed by CPMI-IOSCO, alongside the associated changes in market conditions. This disclosure can be made through the PQDs.*
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> ***IOSCO Proposal 7:*** *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.*

Cboe Response
We are concerned by the proposed margin responsiveness measure, as we do not believe it will produce an actionable measure that will serve the interests of market participants.

The proposed standardized measure of margin responsiveness is designed to be a simple way to compare how the size and speed of margin of a CCP changed during a given period. In general, we understand the value of proposing a simple measure. However, we caution against oversimplifying what is a more complicated exercise.

Moreover, CCPs are significantly different in terms of the products they clear, overall volumes, share of systemic risk they manage, and jurisdictional constraints within which they operate, among other factors. Therefore, even holding all parameters constant, the responsiveness measures from two different CCPs would not be comparable. Cboe Clear Europe for instance clears over a third of European cleared equity trading, but equities clearing does not present the same issues as for example commodity derivatives.

Also, this responsiveness measure invites the possibility that CCPs seek to reduce/increase responsiveness in a misguided attempt to attract clearing members. CCP incentives must be set such that they are focused on designing and utilizing margin tools fit for purpose rather than striving to score highly on a flawed metric. If policymakers move forward with such a measure, we believe it would be prudent to make the measure available to regulators only rather than through PQDs.

CCP Discretion

> ***IOSCO 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.*

<u>Cboe Response</u>
Regulators should not lose sight of the fact that while transparency can support the ability of market participants to manage risk more effectively, market participants introduce risk to the clearing ecosystem that CCPs are responsible for managing for the benefit of the entire ecosystem. CCPs have robust risk management frameworks with many tools at their disposal. Even so, risk manager discretionary judgment is essential, as not every tool has an obvious trigger event (i.e., manual overrides may be required for any number of reasons). What's more, CCPs may not always be able to clearly articulate or define instances where discretion will be required. We encourage IOSCO members to balance the demands for transparency and predictability with those focused on ensuring risk managers have the proper discretion available to operate efficiently and support the resilience and stability of the ecosystem particularly during periods of stress.

<u>Clearing Members Providing Information to Clients</u>

> ***IOSCO Proposal 9:*** *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.*

<u>Cboe Response</u>
We agree that clearing members have an important role to play in improving client understanding of margin requirements and the clearing risk management process. Many CCPs do not have direct relationships with end users/clients, and the clearing members own risk management processes will directly determine the impact to clients.

<u>Clearing Member Disclosures</u>

> ***IOSCO Proposal 10:*** *CMs should disclose additional metrics to the CCPs of which they are members on a quarterly basis with a one/two-month lag.*

<u>Cboe Response</u>
Cboe is supportive of the proposal to have CMs disclose metrics to CCPs, as more visibility of other positions held by our clearing members could provide various benefits to all parties involved. For instance, it could help us develop

even more tools and resources (i.e., compression) to help our clients better manage their risk. We also commend IOSCO for encouraging two-way transparency particularly given the level of sophistication, complexity, and interconnectedness that exists in today's clearing ecosystem. However, we caution policymakers not to mandate action from CCPs when they receive additional CM disclosures. Additional information from CMs could be helpful in developing a deeper understanding of the risk profile of clearing participants, but mandated action based on such CM disclosures could interfere with longstanding risk management processes at CCPs that have generally proven themselves robust over many decades.