Question 1: What are the considerations for a CCP's board when determining whether and how to assign tasks related to the planning and conduct of default management auctions within the CCP's risk management framework? How does the CCP's board identify potential limits to the assigned responsibilities?

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Questions 2: What different considerations may apply when a CCP's board establishes procedures for consulting external experts, such as independent consultants or clearing members, when designing or conducting a default management auction? How does a CCP's board address such concerns?

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Question 3: Do you agree with the description of a successful auction in the discussion paper? Do you agree with the scenarios identified that would constitute an unsuccessful auction, and are there additional such scenarios?

Yes, we agree with the description of successful auction as well as with the identified scenarios leading to an unsuccessful auction.

Question 4: What are the primary challenges in achieving a successful default auction? In addition to those included in the discussion paper, are there other elements in the design of an auction that a CCP could consider in order to increase the likelihood of a successful auction?

Key challenges in conducting a successful default auction and which will also be determinant of the success of the auction will include:
- Decision on whether to hedge or not to hedge; and when to hedge.
- Determining the reserve price, especially under volatile market conditions.
- Decision to conduct a closed group auction or an open market auction.

Question 5: Do you agree with the description of a successful auction in the discussion paper? Do you agree with the scenarios identified that would constitute an unsuccessful auction, and are there additional such scenarios?

A CCP may determine that an auction was unsuccessful for many reasons, but the most likely is that it has failed to receive bids for the entire auctioned portfolio or the bids it has received are unreasonable based on relevant market conditions. In this scenario, a CCP's governance arrangements should allow for reasonable flexibility to not award a portfolio and run an additional auction based on the extant circumstances.

Question 6: Do you agree with the description of a successful auction in the discussion paper? Do you agree with the scenarios identified that would constitute an unsuccessful auction, and are there additional such scenarios?

Market type (exchange traded v/s OTC), liquidity and size of the defaulter's portfolio shall form the basis for deciding the means for establishing the matched book.

In case of liquid, exchange traded and small sized portfolios, the best approach for establishing matched book will be to enter close-out orders on behalf of the defaulter. This approach will ensure matched book establishment with minimal information leakage or price impact.

For OTC products which are non-standard and/or illiquid and/or concentrated, default management auction should be used as a first step towards establishing matched book. In case auction fails, then the CCP may consider other involuntary methods for establishing the matched book.

In case of Cash products and Securities Financing transactions where the trade maturity is very short, auction as the tool for default management may not be appropriate.

Sale of defaulter's portfolio (at a price determined by DMG where any willing non-defaulter can be the buyer) may also be considered as a quicker alternative to return to matched book as compared to auctions in cases where such sale does not lead to utilisation of default waterfall resources beyond the defaulter's resources.

Question 7: In addition to those outlined in the discussion paper, are there other considerations that may be useful for a CCP to take into account when designing its hedging strategy, including circumstances where a CCP may wish to delay hedging?

i. Hedging is one of the most critical elements of the entire default handling process which has to be executed as soon as reasonably practicable following the member termination as the transfer of significant portion of the market risk may happen during hedging and not in auctions.
ii. In general, CCP may consider hedging the directional risk of the default portfolio first and then hedging other risks factors.
iii. However, if there is less liquidity or markets are halted, a CCP may delay hedging and do a liquidation of defaulter's portfolio instead.

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Question 8: How do you incorporate cross-margining arrangement considerations in the hedging strategy and in the broader auction design process?

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Question 9: The discussion paper notes that, with respect to hedging, execution methods vary and depend on a CCP's choice of hedging instruments. What methods are used for hedging, and what is the rationale for implementing (or not implementing) a particular method?

i. In exchange traded market, CCPs may execute hedging trades in the open market directly or through brokers. If the CCP has direct access, hedging can be executed on the exchange hedging through liquidity providers or market makers.

ii. In OTC market, broker services could be taken or auction could be conducted to hedge trades. A CCP may also undertake hedge trades on anonymous trading platforms.

Question 10: What factors, other than those identified in the discussion paper, do you see as relevant when determining how to split a portfolio? Are there situations where certain factors would be more important than others? Please provide examples.

In the determination of how to split a portfolio, all factors mentioned in the discussion paper are relevant and the importance depends on the specific circumstance of the auction and the portfolio.

Question 11: The discussion paper describes two common auction formats. Are there other auction formats not included that could be beneficial for a CCP to consider employing? What factors influence the decision to implement (or not implement) a particular auction format?

CCIL shall prefer to use multi-unit discriminatory price auction format as against single price formats described in the paper. In this format the winner pays/ receives the price that it has bid, thereby lessening the strain on the CCP resources.

Question 11. A: Besides promoting competitive bidding, are there other considerations for choosing two-way pricing? Are there circumstances where it would be beneficial or circumstances where it might not be appropriate? If so, please describe.

Two-way pricing will be ineffective and/or counter-productive in following scenarios:

a) When the defaulter's portfolio is fully hedged, the portfolio being auctioned will be non-directional and therefore two-way pricing may not be possible.
b) In case of large directional portfolios, only market makers may have the wherewithal for providing two-way quotes. Other participants may have directional constraints such as position/ risk limits etc. Therefore, participation in auction could then be limited to only a subset of members which could be non-conducive for competitive bidding.
c) Further, in the event of the mutualised default fund being utilised, it would be unfair to those participants whose default fund contributions have been juniorised due to poor bidding behaviour if they were constrained from bidding in the auction in the first place on account of two-way pricing requirement.

Question 11.B: What are the considerations for choosing to use a reserve price in an auction? Are there circumstances where it would be beneficial or circumstances where it might not be appropriate? If so, please describe.

i. Reserve price could be used as an effective tool for both, hedging as well as auctioning the defaulter's portfolio.

ii. The hedge transactions will be carried out by the traders seconded from the members and therefore it will be in the interest of CCP and the market that "large" losses are not incurred in the hedging process itself.

iii. A reserve price would mitigate the risk of a few large players acing in consort to acquire the auctioned positions at substantially low prices which could result in undue profits for them and larger mutualisation losses for the other members.

iv. In the event, a large concentrated portfolio is being auctioned, the supply may exceed demand. Therefore, the reserve price could ensure that the wayward bids do not receive allotment on account of under-subscription.

v. Market rates at the time of auction and the potential future movements from this point shall form the basis for determining the reserve price. For example, if the market has moved significantly from the point of default till the time of auction on account of some stress event, then the CCP shall set its reserve price with reference to such stressed market prices. In the event, such setting of reserve price leads to shortfall in availability of prefunded default handling resources, the CCP may call for additional resources from the participants in the form of assessment calls.

Question 12: The discussion paper highlights two factors that affect the amount of time auction participants may need to evaluate a portfolio and submit bids. Are there other factors that are important to consider? Is there a minimum time period that a CCP should consider providing to auction participants?

CCPs have differing procedures/guidance on minimum time periods for auction participants to respond, due to different products cleared, time zones for conducting auctions, single vs multiple auction portfolios, etc. The CCP's default management team should take all these into account when defining the timeframe required evaluating a portfolio and submitting bids.

Notwithstanding this, CCPs would need to establish clear communication protocols for disseminating auction requirements including specific timelines for participants' response, ahead of the auction. As an example, a CCP can issue a directive to notify participants of an auction to be conducted, after which the auction portfolio will be circulated within a specified time from the issuance of the directive.

In addition to the two factors cited in the document, CCPs may consider other factors such as the complexity of the products included in the portfolio and whether these products are exchange traded or OTC.

Regular fire drills are required to validate the timing of auction pricing with the CCP's operational capabilities.

Question 13: If a clearing member contributes a "significant" part of the default fund, should that clearing member automatically be included in the auction process? What reasons are there for not including the clearing member?

CCIL feels that all clearing members should be allowed to participate in auctions, especially when their resources in the form of mutualised default fund are at stake. CCP could juniorise Default Fund contributions to incentivize appropriate bidding behaviour while conducting the auctions. For a CCP to restrict member participation in auction is to prevent information leakage that could be disruptive for the market. We understand that there is a tradeoff between "wider participation" and "possibility of information leakage". "Wider participation" in the auction would be our preferred option taking all possible steps to prevent information leakage.

Question 14: The discussion paper discusses the trade-off between flexibility and predictability. How do you assess these trade-offs? Can you elaborate on the ways you provide for predictability while still maintaining flexibility (eg establishing rules and conditions to govern the determination of auction parameters)?

Maintaining a predictable and repeatable auction process, along with transparent rules that outline the use of discretion, will enable auction participants to be better prepared to participate during a default. For example, participants will be able to quickly comprehend an auction portfolio pack if they receive auction packs in the same format during default management drills.

Rules are binding on the clearing members. They set out ex-ante the general obligations and rights for both the CCP and the clearing members in relation to an auction. Further guidance on the procedural details on conducting an auction such as templates, auction format, information sheet, NDA agreements need to be covered as part of a CCP's default management handbook (or an equivalent document) supplement the CCP's rulebook.

Due to unpredictable market conditions at the time of a member default, predefined rules and robust governance arrangements have to allow certain flexibility for CCPs to act appropriately and to ensure the best possible liquidation outcome bringing the least disruption to the market to the extent possible. CCPs should have the flexibility to adapt auction parameters, subject to the approval of the relevant governance body within the CCP, such as setting auction bidding window, auction participant invitation, auction portfolio decomposition, hedging or winning bidder determination.

All default management process steps including governance and execution should be tested by the CCPs and clearing members involving all relevant internal and external stakeholders during regularly organized fire drills.

Question 15: If a CCP uses juniorisation as an incentive to encourage competitive bidding, and in a scenario where the CCP has invited only a subset of participants to an auction, how will the CCP apply the juniorisation to the clearing participants who were not invited?

It would be unfair to juniorise the resources of members without giving them opportunity to bid in the auction. It would be also unfair to juniorise the resources of the participating members ahead of non-participating members. This could be avoided by making the participation in auctions open for all clearing members.

Question 16: CCPs may distribute information that would help auction participants estimate the potential impact of a successful auction bid on their margin requirements. Besides those that members and clients would having during BAU, what information (and at what level of detail) or tools would be most useful for calculating these estimations and why?

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Question 17: The sharing of confidential information (ie the defaulted participant's portfolio) carries potential risks, as discussed in the paper. What are the potential risks associated with information leakages, how does the CCP balance such risks with other objectives (eg sharing sufficient information for a successful auction), and what are the measures the CCP uses to address such risks?

CCIL believes that at least those participants whose resources in the form of mutualised default fund are at stake should be given a fair opportunity in the auction process.

Question 18: CCPs use various modes of information transmission during a default management auction

(eg email, web-based portal). Can you elaborate on which modes are the most effective in which circumstances and whether it varies depending on the type of information, and why? Would you consider web-based portals a best practice? If so, why?

Communications prior to and during an auction can be streamlined with IT infrastructure such as web-based applications, chat-based messaging applications etc. which can limit operational risk and delays in information distribution. Where such IT infrastructure is not available, CCPs should have a tested email-based auction process in place.

Question 19: What are the challenges and trade-offs of creating a realistic default management testing exercise? What processes are used to create the scenarios used in such exercises?

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Question 20: There may be benefits in pursuing greater standardisation and harmonisation across CCPs in relation to certain operational elements which support execution of an auction.

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Question 20.A: For example, should auction portfolio files be in a standard (or partially standardised) format (for different product types)? If so, which aspects of the portfolio file would benefit the most from cross-CCP standardisation (eg file type, layout, order of information or content)?

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Question 20.B: Besides CCP portfolio files, which other operational elements would benefit (the most) from greater standardisation and harmonisation across CCPs?

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Question 20.C: Are there specific operational elements or areas where standardisation and harmonisation may not be helpful?

[Blank]

Question 21: For which markets, asset or product classes and client types would client participation be most feasible and/or desirable? What would be the incentives for clients to participate in auctions? Does this differ for direct vs indirect client participation? Please elaborate in your response.

A one-size-fits-all approach should not be applied to client participation in CCP Default Management Auctions. Any decisions on the details of the individual CCP's Default Management process should be left to the discretion of those best able to make a judgement on this, i.e. the relevant CCP, with consultation from its Clearing Members and other stakeholders.

Question 22: The discussion paper describes some ways to address the risks borne by a clearing member arising from its clients bidding in an auction. Are there additional ways to address the risks? Are there incentives that a CCP could employ to encourage client participation in an auction (eg ways to encourage clearing members to facilitate their clients' participation)?

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Question 22.A: One option for addressing a disparity in incentives between clearing members and clients is to require clients to contribute an established amount to the default fund prior to participating in an auction. What are the implications of this requirement (such as regulatory, economic or contractual implications) and how can a CCP address these implications?

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Question 23: The discussion paper suggests that the conduct of multi-CCP default management exercises may provide useful insights into the hedging and auction procedures, should these be conducted by multiple CCPs concurrently. Can

you elaborate on what specific insights could be obtained in relation to hedging and auctions via these multi-CCP default management exercises, if possible with concrete examples?

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Question 24: Feedback from the industry suggests that introducing a cap on the number of traders that can be seconded to multiple CCPs from a particular common clearing participant at any one time may mitigate the potential burden on clearing participants' participation in DMGs. How could such caps be instituted and implemented in practice? What could be the challenges of introducing such caps? Apart from caps, are there other options a CCP could consider to mitigate this potential burden?

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Question 25: Are there efficiencies or benefits to be gained from CCPs coordinating their respective default management auctions? If so, how?

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Question 25. A. Are there any arrangements that could be coordinated ex ante (eg cross-CCP netting arrangements)? How could these arrangements be established? What would be the challenges with these arrangements? How could these challenges be mitigated?

[Blank]

Question 26: Are there any additional points of consideration that would contribute to a successful auction that are not mentioned in this discussion paper? If so, what are they?

[Blank]

Question 27: What are the potential areas in the context of default management auctions where additional guidance might be most welcome?

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Any other comments/feedback on areas not mentioned above:
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