April 16, 2024

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VIA ELECTRONIC SUBMISSION

Re: Consultative report on *Transparency and responsiveness of initial margin in centrally cleared markets—review and policy proposals*

To Whom It May Concern:

CME Group Inc. ("CME Group")[1] appreciates the opportunity to comment on the Basel Committee on Banking Supervision ("BCBS"), Committee on Payments and Market Infrastructures ("CPMI") and Board of the International Organization of Securities Commissions ("IOSCO") consultative report on *Transparency and responsiveness in initial margin in centrally cleared markets—review and policy proposals* (the "Consultation").[2]

Chicago Mercantile Exchange Inc. ("CME") is a wholly-owned subsidiary of CME Group. CME is registered with the Commodity Futures Trading Commission ("CFTC") as a derivatives clearing organization ("DCO") ("CME Clearing" or the "Clearing House"). CME Clearing offers clearing and settlement services for listed futures and options on futures contracts, including those listed on CME Group's CFTC-registered designated contract markets ("DCMs"), as well as over-the-counter derivatives transactions, including interest rate swaps ("IRS") products. On July 18, 2012, the Financial Stability Oversight Council designated CME as a systemically important financial market utility ("SIFMU") under Title VIII of the Dodd-Frank Wall Street Reform and Consumer Protection Act. As a SIFMU, CME is also a systemically important DCO.

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1 As a leading and diverse derivatives marketplace, CME Group enables clients to trade in futures, cash and over-the-counter markets, optimize portfolios, and analyze data – empowering market participants worldwide to efficiently manage risk and capture opportunities. CME Group's exchanges offer the widest range of global benchmark products across all major asset classes based on interest rates, equity indexes, foreign exchange, energy, agricultural products, and metals. CME Group offers futures trading through the CME Globex platform, fixed income trading via BrokerTec, foreign exchange trading on the EBS platform.

2 Basel Committee on Banking Supervision, Committee on Payments and Market Infrastructures, and Board of the International Organization of Securities Commissions, Consultative report, *Transparency and responsiveness of initial margin in centrally cleared markets—review and policy proposals* [hereafter, "*Consultation*"] (Jan. 2024), *available at* https://www.bis.org/bcbs/publ/d568.pdf.

I. INTRODUCTION

CME Group is a strong supporter of transparency[3] and welcomes the opportunity to discuss enhancements to transparency in derivatives markets designed to bolster the liquidity preparedness of market participants. Further, CME Group recognizes the importance of the work done by policy-makers to analyze the performance of centrally and non-centrally cleared financial markets in the wake of the volatility experienced over recent years. The BCBS-CPMI-IOSCO report on *Review of Margining Practices*[4] (the "Phase 1 Report") evidenced that central counterparties ("CCPs") successfully supported the stability of the markets they clear and in turn, the broader financial system. The comprehensive data covering CCPs' margining practices gathered and analyzed in the Phase 1 Report, as well as other industry publications, provide powerful evidence of CCPs' successful, anti-procyclical response to the market stresses resulting from the global pandemic.[5] In particular, variation margin calls, representative of market volatility, far exceeded initial margin calls, which were relatively modest considering the unprecedented volatility.[6] The Phase 1 Report found that "risk factor IM changes were lower in all cases, on a relative basis, than volatility increases."[7]

While the data and analysis in the Phase 1 Report was comprehensive with respect to CCPs, it demonstrated the relative opacity of non-centrally cleared markets. These gaps in the data and analysis hindered the ability of policy-makers to fulsomely analyze the events that transpired during the volatility experienced in recent years. While centrally cleared markets are inherently more transparent than non-centrally cleared markets (one of the multiple reasons clearing was embraced following the 2008 Global Financial Crisis), CCPs have continued to enhance their transparency during the intervening years. In addition to public rulebooks, CCPs publish qualitative and quantitative disclosures, consistent with CPMI-IOSCO's *Principles for financial market infrastructures: Disclosure framework and Assessment methodology* ("PFMI Disclosure") and *Public quantitative disclosure standards for central counterparties* ("PQD"), that comprehensively describe their risk management practices and provide important data points.[8]

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3 *See* https://www.cmegroup.com/clearing/cme-clearing-knowledge-center.html.

4 Basel Committee on Banking Supervision, Committee on Payments and Market Infrastructures, and Board of International Organization of Securities Commissions, *Review of margining practices* [hereafter, "*Phase 1 Report*"] (Sept. 2022), *available at* https://www.bis.org/bcbs/publ/d537.pdf.

5 *Phase 1 Report* at pg. 24 (Figure 15 demonstrates that, on a relative basis, risk factor initial margin changes were lower than changes in volatility); *Phase 1 Report* at pgs. 19-20 (intermediaries reported that out of the listed factors potentially affecting margin calls which they paid and received, market volatility was the most important factor for both centrally and non-centrally cleared markets and they also reported that changes in margin parameters were not even among the top five factors affecting margin calls.); *Phase 1 Report* at pg. 29 (broadly, "[i]ntermediaries reported being relatively unaffected by the increase in margin calls in March 2020."); *Phase 1 Report* at pgs. 9-11 (for centrally cleared markets, variation margin calls far exceeded initial margin calls, as evidenced by the fact that from February to mid-March variation margin calls increased by 460% and the VIX increased by 400%, whereas IM requirements modestly increased by 40%.)

6 *Id*.

7 *Id*. at pg. 24.

8 Committee on Payment and Settlement Systems (later renamed the Committee on Payments and Market Infrastructures) and Board of the International Organization of Securities Commissions, *Principles for financial market infrastructures: Disclosure framework and Assessment methodology* [hereafter, "*PFMI Disclosure*"] (Dec. 2012) and Committee on Payments and Market Infrastructures and Board of the International Organization of

In recent years, CCPs further enhanced their transparency through various initiatives, including through CCP Global's[9] partnership with the Securities Industry and Financial Markets Association ("SIFMA") and Futures Industry Association ("FIA"). For example, CCPs started publishing the quarterly PQD on a two-month lag, instead of a three- month lag, and many CCPs, including CME Clearing, offer PQD webinars, an interactive resource, to provide market participants with a qualitative and quantitative view into the PQD and a platform to ask questions. CCP Global members also implemented an enhanced PQD standardized template in November 2020 and updated PQD FAQ Guide in February 2022 to increase the standardization and consistency of disclosures for easier understanding and comparability of disclosures across CCPs.[10] In addition to these disclosures,[11] CME Clearing has taken a number of steps to increase transparency, including via CME Group's website landing page dedicated to providing transparency on CME Clearing's risk management practices, entitled *"CME Clearing Knowledge Center"*.[12] The *CME Clearing Knowledge Center* includes a variety of documents to educate and provide details on CME Clearing's risk management practices, including CME Clearing's margining, financial safeguards, collateral services, clearing membership, and governance, among other topics, and provides varying levels of detail to accommodate all types of readers. In order to provide more fulsome transparency across the centrally cleared ecosystem, CME Group welcomes the proposals in the Consultation for increased transparency from clearing members.

CME Group shares policy-makers goals of supporting the stability of the broader financial system. CCPs' risk management practices, which are consistent with CPMI-IOSCO's *Principles for financial market infrastructures* ("PFMIs"),[13] fostered such stability as the global economy weathered the recent periods of volatility. Given this, policy-makers must clearly articulate the risk management benefits of the Consultation's proposals, particularly relative to operational and financial costs associated with some of them (e.g., margin simulation tools), so as to not undermine the accessibility of centrally cleared markets.

CME Group's views with respect to each of the Consultation's proposals are set forth below.

II. RESPONSES TO POLICY PROPOSALS

Margin Simulators:

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.
Proposal 2: Margin simulation tools should include, at a minimum, functionality allowing the following:

Securities Commissions, *Public quantitative disclosure standards for central counterparties* [hereafter, "*PQD*"] (Feb. 2015).

[9] CCP Global is the global association for CCPs, representing 42 members who operate over 60 individual CCPs globally across the Americas, EMEA and the Asia-Pacific region.

[10] *See* CCP Global quantitative disclosures resources, *available here*: https://ccp-global.org/pqd/.

[11] *See* CME Clearing's PFMI Disclosure and PQD, *available here*: https://www.cmegroup.com/clearing/risk-management/files/cme-clearing-principles-for-financial-market-infrastructures-disclosure.pdf and https://www.cmegroup.com/clearing/cpmi-iosco-reporting.html, respectively.

[12] *See* https://www.cmegroup.com/clearing/cme-clearing-knowledge-center.html.

[13] Committee on Payment and Settlement Systems (later renamed the Committee on Payments and Market Infrastructures) and Board of the International Organization of Securities Commissions, *Principles for financial market infrastructures* [hereafter, "*PFMIs*"] (Apr. 2012).

a) the calculation of margin requirements under varying historical and hypothetical market conditions for current and hypothetical portfolios; and 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.

CME Group Key Point: Consistent with Proposal 1, margin simulation tools should be offered by CCPs to clearing members and their clients to estimate margin requirements, but Proposal 2 must allow CCPs to maintain flexibility to determine the appropriate functionalities for these tools.

Consistent with Proposal 1, CME Group recognizes that providing margin simulation tools to clearing members and clients to estimate margin requirements will support market participants' ability to manage their risks, including liquidity planning. CME Clearing provides its market participants with margin simulation tools, including CME CORE, which allows market participants to calculate and evaluate initial margin requirements for all products cleared by CME Clearing and conduct margin analysis on current and hypothetical portfolios. Additionally, CME Clearing provides downloadable SPAN framework and current and historical SPAN risk parameter files on the CME Group website. While CME Group appreciates the value that margin simulators can provide, it is important to emphasize that, as noted in the Consultation, "margin simulators can only provide an estimate of potential future market requirements" and "margin simulator tools cannot predict market events, and any forward looking functionality may generate outputs which differ from actual margin requirements on future dates."[14]

CME Group is concerned with Proposal 2's expectation that CCPs offer margin simulation tools with functionality for simulating varying hypothetical market conditions. As the Consultation recognizes, these tools cannot predict future market events, and offering such functionality would not only be challenging, but of potentially limited risk management benefit. The number of hypothetical, as well as customizable, market conditions a margin simulator would have to support to provide a meaningful risk management benefit would be likely innumerable at a diverse CCP, given the different risk factors to which market participants' portfolios are exposed. For example, the risks of agricultural commodity futures and equity index futures vary, given the seasonality of agricultural derivatives.

Broadly, it is important to balance risk management benefits of functionalities offered within margin simulators against the costs to provide them. Some of the suggested functionalities, including simulations for hypothetical and customizable market conditions, would be computationally complex and therefore, extremely costly. As the Consultation notes, "[t]he 86% of CCPs providing simulators without forward-looking functionality noted the cost, or burden, of creating and maintaining these tools and a lack of demand by potential users as the primary reasons for not providing such functionality. More generally, CCPs highlighted development, implementation and maintenance costs as the key challenges to increasing the depth/functionality of their margin simulation tools."[15] Given the significant costs and complexity of developing forward-looking functionalities within margin simulators (e.g., hypothetical and customizable market conditions), CME Group recommends that the provision of these functionalities should not be mandated. Similarly, CCPs should maintain the flexibility in determining the manner in which the simulation of historical market conditions is offered.

[14] *Consultation* at pg. 21.
[15] *Consultation* at pg. 14.

CME Group is also concerned with the Consultation's suggestion that CCPs provide margin simulators that allow for simulation using their current extreme but plausible historical and hypothetical stress test scenarios (e.g., scenarios used for a CCP's default fund sizing). A CCP's initial margin is designed to cover a minimum of 99% of price moves on an *ex post* basis, while a CCP's extreme but plausible historical and hypothetical stress test scenarios used to size the default fund are designed to cover the tail risk in excess of initial margin requirements. Including these extreme but plausible historical and hypothetical stress test scenarios in CCPs' margin simulators is unsuitable and could cause confusion for users regarding what types of losses initial margin is expected to cover. Additionally, the number of stress scenarios used in a CCP's default fund sizing can also be very large, resulting in operational complexity and thus, significant financial costs.

With regard to Proposal 2's expectation that margin simulation tools incorporate initial margin add-ons, it is important to recognize the unique features of different CCPs' margin models. A CCP's ability to incorporate initial margin add-ons in a margin simulator tool depends on the specific features of the margin model and its add-ons. Initial margin add-ons that are embedded in a margin model that are universally applicable (e.g., liquidity add-on for a given product that applies to all clearing members) may be easier to incorporate than other add-ons, including those that are discretionary in nature or calibrated outside of a CCP's core margin model (e.g., add-ons related to a given clearing member's tress testing results or a given clearing member's capital levels). CCPs should continue to provide transparency to market participants on the initial margin add-ons they employ, but should maintain flexibility in determining which initial margin add-ons are included in their margin simulators.

CME Group believes that CCPs should provide margin simulators that simulate current and hypothetical portfolios using current initial margin requirements. Other functionalities in simulators, such as analysis under historical and hypothetical market conditions and customizable scenarios, should be offered at a CCP's discretion, taking into consideration user demand and the financial and operational cost of offering such functionalities.

Qualitative Disclosure to Participants:

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; and b) the logic, applicable thresholds and data used for the calculation of margin add-ons.
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.

CME Group Key Point: Qualitative disclosures provided by CCPs to their market participants, particularly consistent with the PFMI Disclosure, achieve the objectives of Proposals 3 and 4.

As noted earlier, CCPs, including CME Clearing, have undertaken a significant amount of work to enhance their public disclosures[16] and it is important to recognize that CCPs are already very transparent, as demonstrated, in part, by the large amount of CCP data included in the Phase 1 Report.

CCPs, including CME Clearing, provide transparency to the public by publishing PFMI Disclosures and PQDs[17] that cover, among other information, their margining practices (e.g., descriptions of the margin methodology, size of initial margin required, and backtesting results, etc.).[18] CME Clearing's PFMI Disclosure includes descriptions of CME Clearing's margin models used and the governance process around changing margin model parameters. Additionally, CCPs provide public information through their rulebooks, advisories, and rule filings, along with information provided to market participants through risk committees, working groups, and coordination with industry associations. CME Clearing also encourages market participants to engage in one-on-one discussions with its staff to provide further and more tailored transparency on risk management practices.[19]

Further, CME Clearing, like many CCPs, provides clearing members margin model white papers, subject to any necessary confidentiality and non-disclosure agreements, that describe both technical and non-technical aspects of its margin models (e.g., key model parameters, including APC measures and initial margin add-ons). CCPs must also describe their APC measures in their PFMI Disclosures, which require CCPs to address the following questions relating to Principle 6, Key Consideration 3:[20]

> *"How does the CCP address procyclicality in the margin methodology? In particular, does the CCP adopt margin requirements that, to the extent practical and prudent, limit the need for destabilising procyclical changes?"*

CME Clearing provides descriptions of the APC measures used in its margin models. Further, following the unprecedented market volatility during March and April 2020, CME Group published a paper[21] that analyzed CME Clearing's performance and risk management choices to maintain appropriate margin coverage while avoiding procyclical changes in its initial margin requirements.

Also, in recent years, CME Clearing has prioritized continually enhancing its transparency by engaging in many discussions with market participants to identify what information would be most valuable to them. As noted above, in an effort to provide market participants with easy access to additional transparency, CME Group created the "*CME Clearing Knowledge Center"* landing page on the CME Group website.[22]

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[16] *See* https://www.cmegroup.com/clearing/cme-clearing-knowledge-center.html.

[17] *PFMI Disclosure* and *PQD*.

[18] *See* CME Clearing's PFMI Disclosure and PQD, *available here*: https://www.cmegroup.com/clearing/risk-management/files/cme-clearing-principles-for-financial-market-infrastructures-disclosure.pdf and https://www.cmegroup.com/clearing/cpmi-iosco-reporting.html, respectively (noting, disclosures relating to Principle 6: Margin).

[19] As noted, CME Clearing also offers margin simulation tools, including CME CORE, that allows market participants to calculate and evaluate initial margin requirements for all products cleared by CME Clearing and conduct margin analysis on current and hypothetical portfolios.

[20] *PFMI Disclosure* at Principle 6, Key Consideration 3 (noting, question 6.3.7).

[21] CME Group, Stability in Times of Stress: CME Clearing's Anti-Procyclical Margining Regime [hereafter, "*CME Group Paper*"] (May 2021), *available at* https://www.cmegroup.com/clearing/files/stability-in-times-of-stresscme-clearings-anti-procyclical-margining-regime.pdf.

[22] *See* https://www.cmegroup.com/clearing/cme-clearing-knowledge-center.html.

The CME Clearing Knowledge Center includes a variety of documents to educate and provide details on CME Clearing's risk management practices and provide varying levels of detail to accommodate all types of readers. These documents include information on CME Clearing's risk management and financial safeguards, margining, collateral services, settlement, clearing membership, and governance, among other topics. The *CME Clearing Knowledge Center* landing page includes "101 Documents" which offer an introduction to various aspects of CME Clearing's risk management. CME Clearing continuously works with market participants to provide them with appropriate levels of transparency and the landing page is as an accessible tool to that information. As noted above, CME Clearing also hosts public quarterly webinars to accompany the release of its PQD, which are also accessible via the *CME Clearing Knowledge Center*.[23]

The current level of disclosures provided by CCPs, consistent with the PFMI Disclosure and PQD, already sufficiently covers Proposals 3 and 4 of the Consultation. However, as described below, CME Group is encouraged to see policy-makers shift the focus to proposals that increase transparency by clearing members. We believe that it would be beneficial for policy-makers to focus on areas lacking in transparency, such as clearing members' margining practices in cleared and margining practices more broadly in non-centrally cleared markets, in light of the significant transparency already provided by CCPs.

Public Quantitative Disclosures:

Proposal 5: CCPs should provide additional breakdowns of margin-related data through the PQDs and report such data more frequently and with shorter reporting lags. All PQD data should be reported consistently and accurately.

CME Group Key Point: Proposal 5 should neither require CCPs to publish any disclosure items covered in the PQDs on a daily basis, nor should it require CCPs to disclose information relating to product-level backtesting.

CCPs already publicly disclose a vast amount of data and information through the PQD. While the Consultation recognizes the importance of the PQD, it does not clearly articulate what risk management benefits of Proposal 5 would provide to market participants, particularly as it relates to the increased reporting frequency of the PQD and reporting product-level backtesting results. CME Group is concerned with the suggestion that CCPs provide daily reporting for certain margin-related disclosures, since it could inadvertently distract market participants from key data points currently captured in the PQDs that provide a holistic overview of a CCP's margining practices.

Daily Reporting

CCPs have been actively involved in continuous efforts to enhance transparency, and CCP Global has partnered with SIFMA and FIA to enhance the usefulness of the PQDs, including moving quarterly publication from a three-month lag to a two-month lag and improving the overall standardization of the format of the disclosures. In considering an enhanced reporting frequency of the PQD, it is important to

[23] *See* CME Clearing's PQD webinar, *available here*: https://www.cmegroup.com/education/videos/archive-cme-clearing-quarterly-pqd-webinars.html.

recognize that the PQD, consistent with the PFMI Disclosure, is designed to provide market participants with a holistic overview of a CCP's risk management practices that allows market "participants to have an accurate understanding of the risks, fees, and other material costs they incur by participating in the" CCP.[24] As such, the PQD is produced on a quarterly basis and provides point-in-time disclosures and average and maximum disclosures over the applicable period. This allows market participants to continue to understand the risks to which they are exposed. Expecting CCPs to report any disclosure items in the PQD on a daily basis with a one-day lag, particularly without any clear rationale outlining the benefit of such voluminous data, would result in an overwhelming and indigestible amount of data and information that could distract market participants' attention from the disclosure items in the PQD that provide a holistic overview of a CCP's risk management practices. Notably, initial margin levels can fluctuate for a variety of reasons unrelated to changes in market volatility, such as evolving portfolio composition and underlying price changes in the cash market. CME Group is concerned that the public disclosure of margin-related data on a daily basis could inappropriately impact market participant behavior as they may misunderstand the rationale for observed changes. In addition, CME Group already publishes the daily data needed for market participants to calculate product-level backtesting themselves, including daily prices and daily margin levels by product.

To address the importance of transparency while still providing pertinent and usable data points, CME Group believes it is worth considering monthly reporting of the disclosure items outlined in Table 5 with a one-month lag to avoid reverse engineering. Ultimately, any adjustment to the reporting lag for disclosure items must continue to provide CCPs sufficient time to prepare and review these items to support the accuracy of the PQD. Currently, the PQDs are subject to multiple levels of internal reviews and governance approvals. Additionally, to provide greater comparability of margin-related disclosure items within the PQD, CME Group believes it is also worth considering reporting the disclosures for initial margin required (i.e., PQD 6.1) and held (i.e., PQD 6.2) as an average and maximum over the reporting period and the disclosure for initial margin called (i.e., PQD 6.8) as an average over the reporting period. Finally, with respect to CCPs that are publicly traded or have parent entities that are publicly traded, adjusting the reporting frequency must be considered against the financial disclosure requirements to which they are otherwise subject to avoid any conflicts.

<u>Additional Breakdown of Margin-Related Reporting</u>

CME Group does not believe that publishing product-level backtesting in the PQD provides meaningful risk management benefits for market participants. In evaluating a margin model's performance for coverage, portfolio-level backtesting (as is currently reported in the PQDs) is the appropriate measure, since risk is managed and a CCP's initial margin requirements are determined at a portfolio-level. Portfolio-level backtesting reflects the risks in a clearing member default event, since a CCP would be liquidating the defaulter's positions at a portfolio-level. However, should market participants want to analyze product-level margin backtesting, they can do so using the data already provided by CCPs. Participants can utilize daily price movements and initial margin requirements to conduct their own product-level backtesting on a daily basis, as noted above.

Measuring and Disclosing Margin Responsiveness

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[24] *PFMIs* at Principle 23.

Proposal 6: CCPs should disclose 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.

CME Group Key Point: In order to achieve the objectives of Proposal 6 for a standardized measure of initial margin responsiveness, CME Group recommends that CCPs disclose, as a maximum over a one-quarter period and 12-month period and average over a 12-month period: a) the one-day percentage change in initial margin required; and b) the ratio of the one-day change in initial margin required relative to variation margin paid.

It is important to ensure that any measure of initial margin responsiveness is designed in a manner that is most useful to market participants and provides an accurate representation of how a CCP's margin model reacts to current volatility. Broadly, CME Group agrees with the Consultation's intention to focus on a measure of margin responsiveness that captures the change in initial margin required relative to the change in volatility observed. CME Group believes this measure and the associated changes in margin conditions should be reported at an aggregate level for each margin model, rather than at a product- or specific portfolio-level, because this would provide real world information on a margin model's actual responsiveness and be representative of what is happening in the markets the CCP clears. More specifically, CME Group recommends that CCPs disclose for each of their margin models the following, as a maximum over a one-quarter period and 12-month period and average over a 12-month period:

> *a) the one-day percentage change in initial margin required; and b) the ratio of the one-day change in initial margin required relative to variation margin paid.*[25]

These disclosures would provide market participants with a standardized measure of margin responsiveness relative to changes in market conditions (as measured by variation margin) across CCPs that is simple and understandable. One of the inherent challenges of designing a measure of margin responsiveness is that CCPs employ unique margin models to account for unique products and risk factors, requiring a measure that is agnostic to the specifics of a CCP's margin model. CME Group's recommended measure accomplishes this goal. Similarly, using variation margin to capture changes in market conditions relies on a well-accepted measure of market volatility as it captures the true profit and loss and avoids the shortcomings of using value-at-risk or standard deviation as the volatility risk metric, as articulated in the Consultation.[26] However, CME Group recognizes that the unique characteristics of the products a CCP clears must also be considered in the design of the measure of volatility and believes it is important for CCPs to maintain their flexibility in order to define the appropriate measure.

Furthermore, disclosing a measure of margin responsiveness at the aggregate-level for each margin model, as CME Group recommends, addresses the shortcomings of disclosing a measure at a product- or specific portfolio-level. A measure that is disclosed at product-level does not account for the fact that initial margin requirements are determined at a portfolio-level, regardless of margin model, and

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[25] With respect to b) for illustrative purposes, if the one-day change in initial margin required was 100 and the variation margin paid was 200, the disclosure would be that variation margin paid was 2.0 times larger than initial margin required.

[26] *Consultation* at pg. 38.

ultimately, influenced by all the products that make up the portfolio—i.e., one of the key benefits of central clearing is that appropriate margin offsets are provided across products. Additionally, a product-level measure presents challenges with respect to futures products that are subject to regular contract rolling, as contract rolling results in natural changes to initial margin requirements. Similarly, a measure that is disclosed at a specific portfolio-level (i.e., dynamic or static) does not account for the diversity of portfolios cleared by a CCP. A CCP's margin simulators, as addressed in Proposals 1 and 2, allow market participants to run their own product- and portfolio-level analysis of margin responsiveness which can be tailored to their specific needs, providing more value than any measure of margin responsiveness.

Since the intention for disclosing this margin responsiveness measure is to enhance market participants' liquidity preparedness, focusing on a one-day change would be most relevant as liquidity preparedness is about meeting short-term liquidity needs for centrally cleared markets (e.g., obligations from a settlement cycle). Using a one-day period is also generally consistent with the timelines under which market participants are required to meet payment obligations to a CCP. Since the measure is proposed to be reported within the PQD, to provide comparability with other disclosure items, CME Group believes the reporting frequency and window for the measure should align with the current PQD.

In response to the request for comment on CCPs providing additional qualitative information alongside the disclosure of a measure of margin responsiveness, CME Group recognizes the value of CCPs having the opportunity to provide additional information that could contextualize the measure, since changes in initial margin requirements can be driven by any number of factors, including position changes and price changes. Providing additional qualitative information allows CCPs to provide market participants with a holistic understanding of the ways margin models react to observed changes in market conditions.

Framework for Assessing Model Performance and Taking Appropriate Action

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.

CME Group Key Point: The objectives of Proposal 7 for CCPs to identify and define an analytic and governance framework for their margining practices is achieved under the current PFMIs.

Consistent with the PFMIs, CCPs' initial margin requirements are designed to be appropriately anti-procyclical, as demonstrated in the Phase 1 Report.[27] Consistent with Proposal 7, CME Clearing employs a number of APC measures within in its margin models and overall practices and monitors the performance of these measures, as well as margin coverage, on an ongoing basis. CCPs' risk management practices, including margining, are subject to governance arrangements that are designed to promote the safety and efficiency of the CCP and support the stability of the broader financial system.[28] The design, review, and recalibration of CME Clearing's margin models balances all of these considerations.

[27] *PFMIs* at Principle 6, Key Consideration 3.
[28] *PFMIs* at Principle 2.

Generally, the PFMIs provide for CCPs to identify and define an analytical and governance framework, appropriate to their business lines and risk profile, for assessing margin responsiveness within the broader context of margin coverage and cost.

While CME Clearing considers margin coverage, responsiveness, and cost in assessing its margin models on an ongoing basis, these three considerations are not of equal importance. Consistent with the Consultation, providing for the necessary margin coverage should always be prioritized over a margin model appearing less procyclical or reducing costs.[29] Any analytic and governance framework for assessing margin model responsiveness must recognize the need for CCPs to find the appropriate balance among these three considerations. CCPs must maintain the flexibility to tailor their frameworks in a manner that it is suitable for the unique characteristics of their products, margin models, clearing members, and risk management practices.

Governance and Review of Margin Models Where CCPs may Apply Discretion

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; and c) publicly disclose, through additions to the PQDs, the aggregate size and duration of manual margin overrides, as compared with unadjusted IM requirements. This disclosure could be supported by a qualitative explanation of the reasons for the override.

CME Group Key Point: CCPs maintain governance procedures for making margin model changes, including overriding margin model requirements, consistent with the current PFMIs and appropriately disclose these changes.

CCPs, including CME Clearing, have robust and clear governance frameworks for overriding and making manual adjustments to a margin model's initial margin requirements. While acknowledging the importance of maintaining this governance framework, CME Group believes that margin model overrides and manual adjustments should be used sparingly. As a case in point, CME Clearing did not implement any new risk management rules, policies, or processes in response to the volatility experienced in recent years, including during the COVID-19 pandemic. Consistent with the limited use of margin model overrides and manual adjustments, CME Group does not believe in the use of prescribed triggers that would lead to an automatic override or manual adjustment to a margin model's initial margin requirements because these triggers can result in procyclical outcomes.

[29] *Consultation* at pg. 29.

A CCP's decision to override or manually adjust margin model requirements must be made leveraging its risk management expertise and considering the relevant facts and circumstances, including based on a CCP's ongoing monitoring. While CCPs must maintain the flexibility to consider the relevant facts and circumstances, these decisions must also be made pursuant to its governance arrangements that, consistent with the PFMIs, promote the safety and efficiency of the CCP and support the stability of the broader financial system.[30] CME Group believes that it is important for CCPs to maintain clear governance procedures defining the necessary reviews and approvals to implement an override or manual adjustment of a margin model. These governance procedures should be supported by robust monitoring of the margin model that includes escalating the results of ongoing monitoring to those responsible for reviewing and approving any proposed override or manual adjustment to the model.[31] It is paramount that CCPs maintain the flexibility to utilize their risk management expertise, taking into account specific facts and circumstances, supporting the decision to override or make a manual adjustment to a margin model's requirements.

CME Group believes that the disclosure of the governance procedures for such overrides or manual adjustments should generally be made within a CCP's rulebook and PFMI Disclosure. While these procedures would capture the authority a CCP has to override or manually adjust its margin model's requirements, a CCP cannot, and should not, be expected to disclose a list of specific scenarios under which overrides or manual adjustments may occur. Such a list would not capture all the unique facts and circumstances where an override or manual adjustment may be appropriate. Ultimately, disclosing a list of specific scenarios is not in the interest of promoting market participants' liquidity preparedness as unanticipated facts and circumstances may also lead to overrides and manual adjustments. Broadly, overrides and adjustments to CME Clearing's margin models that are not specific to any one clearing member would be also communicated through a clearing advisory, which is publicly available on the CME Group website. Accordingly, CME Group generally believes advisories or similar are the appropriate means for disclosure and therefore, additional disclosure items in the PQD relating to margin model overrides and adjustments are unnecessary and inappropriate, since necessary context can be provided in advisories that would not be appropriate for the quantitative nature of the PQD.

Clearing Member Transparency to Clients and CCPs

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 margin requirements clients may be subject to under different

[30] *PFMIs* at Principle 2.
[31] *PFMIs* at Principle 6, Key Consideration 6.

scenarios; d) CMs should without the need for 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; and e) CMs should disclose to their clients backward-looking information on the maximum, minimum and average differences between margin requirements set by the CM and the margin requirements of the CCP over a defined period of time.
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.

CME Group Key Point: CME Group is supportive of Proposals 9 and 10 that endeavor to bring the disclosures of clearing members with respect to margining more in line with the level of disclosure currently provided by CCPs.

The level of transparency that is provided by CCPs should be replicated in other areas of the financial system, including with respect to non-centrally cleared markets and the practices of clearing members in centrally cleared markets. The benefits of enhanced transparency in these areas are demonstrated by the Phase 1 Report, since, for example, it did not include details regarding the size of discretionary margin calls in non-centrally cleared markets or the size and timeliness of clearing member initial margin calls issued to clients in centrally cleared markets.

<u>Clearing Member to Client Transparency</u>

CME Group welcomes Proposal 9 as a higher level of transparency from clearing members to their clients would be beneficial for clients' liquidity planning. As noted in the Phase 1 Report, further transparency from clearing members to clients, as well as further transparency regarding margins in non-centrally cleared markets, are important factors for supporting policy-makers' objective of promoting market participants' liquidity preparedness, which ultimately, supports the stability of the broader financial system.[32] While CCPs provide comprehensive disclosures to clients on their margining practices (e.g., PFMI Disclosure and PQD), clients do not directly face the CCP, so CCP specific information by itself will not assist them with liquidity planning and preparedness. In order for clients to have a comprehensive understanding of their margin requirements, it is important for clearing members to provide transparency into their margining practices, including client-specific add-ons. CME Clearing believes that ensuring clearing members provide clients with sufficient transparency will allow clients to have a better understanding of the mechanisms that determine their margin requirements, and ultimately, allow for clients to enhance their liquidity preparedness.

<u>Clearing Member to CCP Transparency</u>

CME Group welcomes Proposal 10 as the proposed clearing member disclosures to CCPs will provide CCPs with greater visibility into the risks and resources of clearing members across cleared derivatives markets through a standardized mechanism that can be effectively embedded into a CCP's robust counterparty credit risk management practices. CME Group is supportive of the adoption of the proposed

[32] *Phase 1 Report* at pgs. 36-7.

disclosures (i.e., listed items suggested in Proposal 10) by all clearing members.[33] We do not find the disclosures contemplated in Proposal 10 to be overly burdensome given the level of clearing member sophistication.

III. CONCLUSION

We would be happy to further discuss our comments with BCBS-CPMI-IOSCO. If any comments or questions regarding this submission arise, please feel free to contact me at suzanne.sprague@cmegroup.com or Sean Downey, Managing Director, Clearing Chief Compliance Officer, Enterprise Risk Officer and Head of Policy at sean.downey@cmegroup.com.

Very truly yours,

Suzanne Sprague
Senior Managing Director, Global Head of Clearing & Post-Trade Service

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[33] *See* CME Group, Letter to the BCBS-CPMI-IOSCO on the Consultative report on Review of margining practices (Jan. 2022) (noting, Annex I included includes CME Group's recommendations for disclosures from clearing members and demonstrates where the recommended disclosures are already provided by CCPs), *available at* https://www.iosco.org/library/pubdocs/686/pdf/CME%20Group.pdf.