April 16, 2024

VIA ELECTRONIC TRANSMISSION

BCBS Secretariat (baselcommittee@bis.org)
CPMI Secretariat (cpmi@bis.org);
IOSCO Secretariat (margin@iosco.org)

RE: BCBS-CPMI-IOSCO Consultative Report on Transparency and responsiveness of initial margin in centrally cleared markets-review and policy proposals.

The Depository Trust & Clearing Corporation ("DTCC") and its central counterparty subsidiaries, the Fixed Income Clearing Corporation ("FICC") and National Securities Clearing Corporation ("NSCC"), appreciate the opportunity to comment on the above referenced consultative report (the "Consult"),[1] which sets out a series of policy proposals (the "Proposal(s)") developed by the margin group established by the BCBS, CPMI and IOSCO (the "Margin Group") related to additional transparency in centrally cleared markets and the level of responsiveness of initial margin ("IM") models employed by central counterparties ("CCPs") such as FICC and NSCC.

DTCC appreciates the value of transparency concerning margin requirements, margin model components and assumptions, and model performance metrics and is generally supportive of the Proposals. However, DTCC believes that some aspects of the Proposals are unduly prescriptive. Because margin models and other margin components, such as add-on charges, vary widely across CCPs due to the different markets that they serve and the different regulatory regimes under which they operate, we believe that it would be better for the Margin Group's proposals to be reflected in higher-level objectives for CCP margin effectiveness, model performance, and member and public transparency. We believe that the level of detail, frequency of reporting, and specific model performance metrics to be included in public quantitative disclosures ("PQDs") should be determined by CCPs in consultation with their direct regulators.

About FICC and NSCC

DTCC is the parent company of three clearing agencies: FICC, NSCC and The Depository Trust Company ("DTC"), which is the central securities depository for the U.S.

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[1] BCBS-CPMI-IOSCO, Consultative report on Transparency and responsiveness of initial margin in centrally cleared markets – review and policy proposals (January 2024), available at Link.

market.[2] Market participants created FICC, NSCC and DTC to facilitate prompt and efficient clearance and settlement of U.S. securities transactions, and DTCC continues to be owned and governed by its member-participants. FICC has two divisions, which were historically separate companies and still maintain separate rules and separate liquidity and default management resources. The Government Securities Division provides trade comparison, netting, and clearance and settlement for cash purchases and sales and repo transactions in U.S. Treasury securities and agency securities. The Mortgage-Backed Securities Division provides similar services for transactions in mortgage-backed securities, including To-Be-Announced securities. NSCC provides clearing, settlement, risk management, and other services for trades involving equities, corporate and municipal debt, exchange-traded funds, and unit investment trusts.

FICC and NSCC are supervised by the U.S. Securities and Exchange Commission ("SEC")[3] and each has been designated as a systemically important financial market utility ("SIFMU") by the U.S. Financial Stability Oversight Council pursuant to Title VIII of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010.[4] As a consequence, FICC and NSCC are subject to the SEC's covered clearing agency standards, including many CCAS requirements governing the effectiveness and transparency of their margining regimes.[5]

Under the CCAS, FICC and NSCC must effectively identify, measure, monitor and manage a wide variety of risks through a comprehensive risk management program that is comprehensive, transparent, and subject to extensive regulatory oversight.[6] Although DTCC centralizes and standardizes many of its CCP services and employs an experienced and professional risk management team that operates under an enterprise-wise risk management framework, each of the markets and products cleared by FICC and NSCC presents somewhat

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[2] DTCC participated in the 2023 Phase 2 margin survey and in ongoing industry discussions on these topics, and DTCC is a member of the PQD working group of the Global Association of Central Counterparties ("CCPG"), an international association of central counterparties.

[3] The Clearing Agencies are registered clearing agencies under the Section 17A of Securities and Exchange Act of 1934, as amended, and are also self-regulatory organizations under that same statute.

[4] 12 U.S.C. § 5464 (Dodd-Frank Act §§ 805, 803(8)).

[5] 17 C.F.R. § 240.17Ad-22 (2021).

[6] *See* FICC and NSCC Disclosure Framework for Covered Clearing Agencies and Financial Market Infrastructures, Principle 3: Framework for the comprehensive management of risks; CCAS 17Ad22(e)(3).

different credit, market and liquidity risks. FICC's and NSCC's margining regimes are designed to address specific risks, and they must constantly adapt to new trading strategies and dynamic market conditions.

FICC's and NSCC's margin requirements are set forth in rules (including certain policies and methodologies that are filed as rules) that result from an extensive consultative process among the CCPs' regulators and market participants. Proposed changes to FICC and NSCC rules are reviewed and approved by the CCPs' board before being submitted for filing with the SEC, often following extensive data studies and outreach to participants, both informally and through advisory bodies established by DTCC.[7] After filing with the SEC, proposed rule changes are subject to a public notice and consultation process where various parties, including participant customers and other interested parties may offer feedback to FICC, NSCC and the SEC. The SEC's rule filing process also requires FICC and NSCC to explain the rationale behind its proposals and to assess the impact of proposed changes upon its members and upon competition in the industry at large. This transparency ensures that all FICC's and NSCC's participants, its regulators, and the public at large have the opportunity to comment on proposals, and to understand what such proposals provide and how stakeholders may be affected.[8]

FICC and NSCC provide participants and the public a variety of resources for understanding and estimating margin requirements. FICC and NSCC offer margin calculation and simulation tools, provide detailed documentation concerning their respective margin methodologies and clearing fund component calculations. DTCC regularly evaluates its overall risk management framework and specific risk management practices to continuously improve performance and to respond to feedback from its members, supervisors, and other stakeholders.

[7] The SEC's recently adopted clearing agency governance rule sets forth specific requirements for CCPs like FICC and NSCC to solicit and consider feedback from participants and other relevant stakeholders concerning material developments in their risk management and operations. *See* 17 CFR 240.17ad-25(j).

[8] Supra note 6, Principle 23: Disclosure of rules, key procedures, and market data; CCAS 17Ad-22(e)(23). In addition to the formal "rulebooks", FICC and NSCC have also filed, and the SEC has approved, a number of risk management framework documents, including the Clearing Agency Stress Testing Framework; (iii) the Clearing Agency Model Risk Management Framework; (iv) the Clearing Agency Securities Valuation Framework; (v) the Clearing Agency Liquidity Risk Management Framework; (vi) the Clearing Agency Operational Risk Management Framework; (vii) the Clearing Agency Investment Policy; (viii) the Clearing Agency Policy on Capital Requirements; and (ix) the Clearing Agency Capital Replenishment Plan.

As required under the CCAS and in accordance with the PFMI recommendations, FICC and NSCC also provide extensive public disclosures that are frequently updated.[9]

As noted in the PFMI, each CCP's approach to its margin system must take into account the particular attributes of each product, portfolio, and market the CCP serves.[10] Market risk exposures at FICC and NSCC are managed principally through margin requirements, founded upon a core that calculates the Value-at-Risk or VaR of each participant's cleared portfolio, but including components beyond VaR that reflect these different attributes of the asset classes and markets cleared by each CCP. DTCC's risk management program begins with a core set of common principles and processes for identifying, assessing, measuring, monitoring, mitigating, and reporting risk. FICC and NSCC collect margin, called "Clearing Fund," from each direct member (a "CM" or "member") at least once daily. FICC's two divisions and NSCC each employ unique VaR models that calculate the potential market price risk of the direct member's portfolio of cleared transactions and generate a core VaR requirement.[11] Additional margin components beyond VaR are designed to measure specific risks in direct member's cleared portfolios, such as concentration risk or position change risk. The aggregate of all such components comprise each direct member's required clearing fund deposit (or margin under the

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[9] *See* FICC and NSCC Disclosure Framework for Covered Clearing Agencies and Financial Market Infrastructures, Principle 23: Disclosure of rules, key procedures, and market data; CCAS 17Ad22(e)(23), and 2023 FICC Market Risk Initiatives available on dtcc.com/UST, dated January 9, 2023. *See* also FICC and NSCC CPMI IOSCO Quantitative Disclosure Results at https://www.dtcc.com/legal/policy-and-compliance

[10] *See* CPMI-IOSCO Principles for financial market Infrastructures (PFMI), Principle 6: Margin, "Key consideration 1: A CCP should have a margin system that establishes margin levels commensurate with the risks and particular attributes of each product, portfolio, and market it serves." http://www.bis.org and http://www.iosco.org.

[11] FICC uses a risk-based margin methodology that includes a sensitivity-based VaR approach and in NSCC, for positions in most securities, a parametric VaR model is used to determine the potential future exposure of a given portfolio based on historical price movements. *See* FICC and NSCC Disclosure Frameworks for Covered Clearing Agencies and Financial Market Infrastructures, Principle 6: Margin; CCAS 17Ad-22(e)(6).

Proposals) and the aggregate of all such members' deposits is collectively referred to as the "Clearing Fund." [12]

There are certain differences between the margin practices of DTCC's cash market CCPs and derivative CCPs that inform our comments to the Consult and we encourage the Margin Group to consider these distinctions when determining whether to adopt the Proposals. For example, a fundamental distinction in cleared product margin practices can be observed from the risk management consequences of shorter settlement cycles and how settlement affects risk exposures of different cleared products. The majority of products cleared by FICC and NSCC settle on a T+1 or T+2 basis and do not have lengthy settlement timeframes, nor do they present the extended periods of open risk exposures to the CCP that can be typical for cleared derivative products. In light of this distinction, some of the quantitative metrics in the Consult covering drivers of margin calls and responsiveness of initial margin models and default management considerations will need to be different when applied to cash vs. derivatives clearing.

Executive Summary

DTCC evaluated and considered each of the Proposals in the context of the markets served and products cleared by the FICC and NSCC, their current risk management practices, margin models, settlement cycles and other related factors, including how DTCC's participant-owner model and stakeholder feedback processes inform and influence risk management at FICC and NSCC. We evaluated each proposal by assessing its likelihood of achieving a desired outcome or objective, cost/benefit considerations or other tradeoffs, along with the relative materiality of certain margin model inputs and parameters as to which more detailed or frequent disclosures are sought by the Proposals. With those considerations in mind, DTCC believes that while many of the Proposals have merit, some of them present tradeoffs that are important to consider, particularly for participant-owned CCPs, such as FICC and NSCC. DTCC also believes that a "one-size fits all CCPs" approach may not be appropriate given the variety of market participants, assets cleared, and risk profiles across global CCPs. As the Consult points out, the Margin Group must weigh the costs and benefits of each Proposal and commenters have been asked to address this point where they deem applicable.[13]

[12] Unlike derivatives CCPs, the FICC and NSCC do not maintain a separate guaranty or default fund for use in the event of clearing member defaults. The margin collection cycle for FICC/GSD is twice a day, however, for FICC/MBSD and NSCC it is once at start of day. There is also an intraday and an *ad hoc* margin call process at NSCC and FICC.

[13] *See* Consult, General Questions, page 3.

In part because the practical application, and therefore costs and benefits, of each aspect of the Proposals will vary across CCPs and their stakeholders, DTCC strongly recommends that the regulatory authorities engage in further public consultation before adopting final guidance or requirements designed to address the Margin Group's underlying objectives. The Consult notes that where the Proposals are ultimately endorsed and finalized, the existing CPMI-IOSCO CCP resilience guidance (the "CCP resilience guidance")[14] would be amended to reflect the Proposals in the form of updated guidance. While we appreciate the long-term intended policy direction that BCBS and CPMI-IOSCO are pursuing, we do not believe that any amendments to the existing CCP resilience guidance should be amended without adhering to the normal due process requirements for such changes. In this regard, DTCC specifically cautions regulatory authorities against immediately adopting any changes to existing international standards and guidance without first conducting further public consultation on specific amendments to such standards and/or guidance.

Substantively, DTCC's most significant comments relate to Proposals 1, 2, 5 and 6.

DTCC supports the overall objectives of Proposal 1 and 2, which are intended to enhance CCPs' margin simulation tools[15] for purposes of aiding CMs in their ability to anticipate and respond to margin requirements. However, we have concerns with Proposal 2 related to certain proposed margin functionality requirements that we believe Margin Group should reconsider. Specifically, we believe the portion of Proposal 2 that would require add-on charges and user-defined hypothetical markets conditions to be incorporated in the minimum functionality requirements should be revised.

Add-on charges are often based upon member-specific risk factors that are difficult to model and are not intended to be standardized for all members. Some margin add-ons are specific to a member, a portfolio or a combination of both (e.g., charges based on credit or counterparty concerns or applicable to certain members only, such as those on the CCP's watchlist).[16] While some add-on charges may be valuable to include in simulation tools, others could not be readily incorporated such tools for use across all CMs. Accordingly, DTCC

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[14] *See* Consult, page 22.

[15] *See* Consult, Proposals 1 and 2.

[16] *See* CPMI-IOSCO, "Resilience of central counterparties (CCPs): Further guidance on the PFMI-Final report," July 2017, available at www.iosco.org/library/pubdocs/pdf/IOSCPPD539.pdf), (the "CCP resilience guidance") , Section 5.2.12 "A CCP may also utilize a number of margin add-on charges to capture risks that may not be captured in price histories or may be difficult to accurately model."

encourages the Margin Group to consider revisions to Proposal 2 which would enable each CCP to determine which add-on charges have the broadest applicability across its membership and be included in its simulation tool. In addition, DTCC agrees with the Margin Group that clear disclosure of add-on charges is important and NSCC and FICC make available the basis for add-on charges in their rulebooks and supplemental documentation, which enables CMs to determine whether they are applicable to them based on their portfolios and other factors.

In terms of functionality covering forward-looking measures of market volatility, the Consult requests input on whether an option in which users can define their own market scenarios would assist CMs to better align their own expectations of IM required in future stress periods. While DTCC believes this could be valuable to aid market participants in understanding the margin impact based on various scenarios, the inclusion of hypothetical stress scenarios that can extend beyond extreme but plausible and/or are not those already used in the CCP's margin model, do not serve as a true predictor of what a CM's margin requirements for their portfolios might be in an actual stress scenario and indeed could be misleading and lead to CM business decisions that will be inferred from a tool provided by the CCP. On the other hand, DTCC believes that providing CMs with an ability input "what if" portfolios based on potential changes to the positions in their existing portfolios or new CUSIPs they may want to potentially add are more useful tools. This is because these are measures for CMs to use to anticipate margin requirements based on the risk correlations and direction associated with their types of existing and potential trading activity. Similarly, we believe use of historical scenarios in the calculator functionality should align to those scenarios that the CCP uses in its margin model. Further, DTCC believes that by NSCC and FICC making available the margin calculation descriptions and formulas, as is done today, in their rulebooks and supplemental documentation, it enables CMs to independently construct their own scenarios, based on each CM's need.

At the same time, however, we are in favor of greater disclosure to CMs of CCPs' stress testing conditions, including providing CMs with the results of how their portfolios perform under those stress scenarios. Based on our engagement with market participants over the years, we believe the application of the CCPs' actual stress testing scenarios to the CM's current portfolio provides significantly more insight to a CM to understand their potential future liquidity needs than running a series of hypothetical portfolio data against hypothetical market shocks.

DTCC is supportive of the Margin Group's efforts to enhance the public quantitative disclosures (Proposal 5), we recommend the Margin Group carefully consider the costs to CCPs of making the particular data and disclosure frequency changes described in the Proposal versus the benefits to CMs and the public. We do not believe it is correct to assume that increased frequency of reporting nor more breakdowns of margin-related data would necessarily result in achieving the Consult's goal of aiding market participants and regulators' understanding of margin responsiveness. Rather, overly detailed disclosures may lead to misunderstandings by the public about which information is the most critical and increase the costs of clearing due to the additional resources and time needed for CCPs to generate additional data and conduct data quality assurance reviews, while also managing their daily production risk data.

Accordingly, DTCC recommends that prior to adding any PQD disclosures or increasing the frequency of reporting, a cost-benefit assessment be made regarding: (i) whether additional information is already captured in some manner by one or more existing PQDs, (ii) if the public would likely review the data at these more frequent intervals, and (ii) what the CMs and the public would gain from receiving such additional data versus the substantial time and resources that would be required by CCPs to implement them. We further believe that the work being conducted by CCPG and FIA in this area could be sufficient in addressing many of the goals the Consult is seeking to achieve. For example, these efforts have already served to reduce the existing PQD disclosure timeframe from 90 to 60 days after a quarter-end.

Pursuant to Proposal 6, CCPs would be required to disclose a new standardized measure of IM responsiveness across all CCPs. (Proposal 6: Measuring and publicly disclosing margin responsiveness).[17] An assessment of the responsiveness and procyclicality of margin models ultimately depends on, among other factors, the products cleared and related exposures those products present to the CCP, market conditions and the margin model's assumptions and parameters. Thus, we believe the underlying premise of Proposal 6 in which a standardized IM measurement would be applied across all CCPs is inherently flawed. This is because an IM sensitivity approach can vary depending on whether the CCP clears cash vs derivatives instruments. Furthermore, any IM measure would also need to consider volatility, volume, and consideration of the CCP's liquidity needs, which is not contemplated by Proposal 6, and which will differ across CCPs.

If, however, the Margin group chooses to adopt a standardized IM measure in any form, we ask that CPMI-IOSCO first undertake a comprehensive quantitative impact study (CompQIS)[18] similar to what U.S banking regulators conduct for proposals that will have an impact across all banking sectors to (1) assess the impact on participating CCPs of the proposed standardized measure of IM responsiveness and (2) to inform the policy proposals more generally. We are not aware of this type of evidence collection having been used in either the Phase 1 or Phase 2 reviews or the Consult itself and encourage the Margin Group to conduct this type of study to be used as a factor in the final policy-making process, especially where standardized approaches are intended to include quantitative-based principles and new practices.

We further discuss each of the Proposals in more detail below.

[17] See Consult page 26, "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."

[18] *See* for example, https://www.federalreserve.gov/bankinforeg/cqis.htm.

Quantitative Transparency: Proposals 1-2 & 5-6

Proposals 1 and 2 (CCP Transparency, Margin Simulation tools: Availability and Functionality)

As discussed above, DTCC is supportive of the objectives of Proposals 1 and 2 to encourage CCPs to make available margin simulation tools accessible to members, and where applicable, to their clients, to allow CMs to estimate their potential margin needs.[19] DTCC is also supportive of expanding accessibility of these tools to the public, subject to appropriate authorization and controls. However, we believe that the additional functionality proposed under Proposal 2 is not warranted nor appropriate to achieve the Margin Group's objectives for the reasons described below.

Proposal 2 would require that margin simulation tools include functionality allowing for the calculation of margin requirements under CCP-defined or user-defined hypothetical market conditions for current and hypothetical portfolios, and the incorporation of add-on charges in addition to baseline IM. We disagree with the conclusion stated in the Consult that CCP-defined or user-defined hypothetical scenarios would "[…] enable both CMs and clients to understand how a given model may respond to a broad set of market scenarios."[20] In DTCC's view, the reason that user-defined scenarios are not currently built into CCP's margin simulators is that are not likely to assist CMs in planning for their liquidity needs. This is because subjecting hypothetical portfolios to user-defined hypothetical shocks, which are not relevant to current market conditions or the stress scenarios built into the CCPs' model, do not provide CMs with a true comparison of what they can expect in terms of changes to margin. Indeed, having too many variables within the functionality of the simulator will not be meaningful in terms of increasing the predictability of a CM's margin requirements. Similarly, unless historical lookback periods are those that are already incorporated into the CCP's margin model, they will not be useful to the CMs as a reliable input to a margin calculator. As such, this Proposal is an example, where we believe the costs and complexity for CCPs to build and implement this type of functionality would exceed the benefits. Further, DTCC believes that by NSCC and FICC making available the margin calculation descriptions and formulas, as is done today, in their rulebooks and supplemental documentation, it enables CMs to independently construct their own scenarios, based on each CM's need.

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[19] In response to the Consult's request for comment on the most effective way of ensuring that clients who have a desire or need to the tool have access to it (e.g., API), DTCC believes the access method should be determined by the CCP based on their typical means of connectivity with their members and based upon factors, such as the CCP's information security requirements.

[20] *See* Consult, page 10.

As evidenced by the Phase 2 data in the Consult,[21] the majority of CCPs already make margin simulation tools available to their members at no cost, with varying degrees of use by their members. Currently, FICC and NSCC provide members with access to a client calculator, which is an online tool that simulates real and "what if" portfolios through the same engine that FICC/NSCC uses daily to calculate the VaR component of a member's required margin deposit, which is the largest component of the Clearing Fund charges. This tool allows members to monitor and manage the impact that their trading activities may have on their margin requirements.[22] We are in the process of working to make the calculators publicly available so that applicants and those interested in our CCPs' can better understand our margin system. In addition, development work is underway for the creation of CM-facing stress testing reports, which will include CM-level ratios and results under a set of scenarios.

Moreover, as previously discussed, the inclusion of add-on charges in the simulator raises numerous challenges to implement. Although we appreciate the fact that the Consult provides that the objective of the functionality would be to include add-on charges that are related only to the position being margined but would not necessarily incorporate add-ons that are related to the market participant (e.g., related to a CCP's credit assessment of the participant),[23] many add-on charges are in fact based on member-specific factors, or factors that require historical or time-series margin data that is specific to each member portfolio. For example, there are credit or capital considerations or margin add-ons that leverage several months of previous margin requirements, and thus, do not lend themselves to simulation tools. They are, however, fully disclosed to members who have the ability to figure out whether they may be subject to such charges and if so, members can discuss directly with the CCP.

Proposal 5 (Public quantitative disclosures, changes to existing margin-related PQDs)

Proposal 5 puts forward two general enhancements to the PQDs (i) an increase in the detail of certain current PQD fields for purposes of improving public transparency,[24] and (ii) an increase in the frequency and a decrease in the lag of reporting (for certain disclosures, daily with a one-business day reporting lag and another in which monthly, with a one-week lag is proposed). As noted in the Consult, changes in frequency of disclosures would be a substantial

[21] *See* Consult page 19.

[22] Supra note 9 (FICC page 41), (NSCC page 38).

[23] *See* Consult page 20.

[24] The current PQDs impacted would be those regarding (i) shifts in IM component requirements, (ii) CCPs' IM coverage, and (iii) the overall liquidity demands from CCP VM and IM calls.

shift from current practice.[25] It would also come at increased costs to CCPs and members (in a user owned CCP).

We disagree with the Consult's assessment that a proposed overhaul of PQD reporting and an increased frequency of data disclosures would be of added value to assist CMs and the public in anticipating margin requirements—nor do we understand what such parties would do with all this extra information. As acknowledged in the Consult, many CCPs (of which NSCC and FICC are included), already provide a significant amount of margin -related information to members on a daily basis. We disagree that such current reporting to members provides adequate precedent to warrant having CCPs establish PQD daily reporting as well. This is because the nature and frequency of reporting provided to members is designed based on their portfolios and is not generic data aggregated for purposes of public disclosures. The PQDs were not intended to be a daily reporting tool. Indeed, this particular Proposal does not take into consideration differences in margin practices and products cleared between derivative CCPs and cash securities CCPs and the practical challenges associated with more frequent reporting.

For example, the proposed monthly reporting with a one-week lag is not practical to implement because CCPs, such as NSCC/FICC (which have a 3-day MPOR) would need to wait three business days to collect the three-day return data needed for the backtest data. This would leave only two business days to run the numerical data and analyze it before publishing it, which in turn leads to inadequate data quality assurance reviews. This challenge would be further exacerbated for CCPs that have longer a MPOR (e.g., 5-day MPOR in the case of EU derivative CCPs).

We are also concerned about the discussion in this section of the Consult regarding a possible wider review of the PQDs that would consider reporting in a standardized, machine-readable format with enforceable data types, formats, enumerated values and easier to implement automated data quality logic checks. This is because we believe existing PQDs are adequate, and any changes should be coordinated as they have in the past with CCPG, SIFMA, FIA. DTCC has participated in these efforts, which have been successful in enhancing this process by developing an agreed-upon standard reporting template and improving reporting frequency. This is another example of where there would be excessive costs to CCPs, including IT implementation changes, required to develop and monitor standardized data formats, particularly for smaller CCPs. Each CCP has designed its system requirements and it would be a significant undertaking to revamp this.

[25] *See* Consult page 24.

Proposal 6 (New standardized measure of margin responsiveness designed by CPMI-IOSCO)

Proposal 6 puts forth development of a measure of margin responsiveness, publicly disclosed through the PQDs, alongside measures of the associated changes in market conditions. This is with a view to facilitating a primarily retrospective review of margin response to stress conditions.[26] As discussed above, assessing the responsiveness and procyclicality of margin models, and their appropriateness, ultimately depends on the products cleared and related exposures, market conditions and the underlying model assumptions and parameters. The key margin measures currently reported in the PQDs are derived from carefully designed and maintained model standards that leverage statistical techniques maintained by CCPs through their risk management frameworks. Within these frameworks, CCPs leverage performance monitoring and validation processes to assess model uncertainty and estimation error that are inherent in all margin models. On the other hand, non-statistical measures, including the measure proposed in the Consult, [27] have been used historically to assess relative procyclicality. While valuable for certain purposes, non-statistical measures will not capture factors that include that volatility is not uniform or symmetric across risk factors. Further, idiosyncratic risk can affect both volatility and correlations differently across markets.

Therefore, in DTCC's view, we are not in favor of Proposal 6 as we believe a CCP's comprehensive model performance monitoring and model validation program is more effective in assessing responsiveness. We suggest an alternative which would entail some public disclosures of model validation and performance results. A stand-alone end-of-day measure is not intuitive or self-explanatory and requires a significant amount of additional disclosure. Most importantly, end-of-day measures are not comparable or standardized across CCPs. In that regard, we recommend that any disclosure of a measure of margin responsiveness should ultimately be calibrated by each CCP in order to meet the objective to provide market participants with information that can be used in their own margin planning.

If, however, the Margin Group adopts Proposal 6, or otherwise takes steps to encourage a standardized measure of margin responsiveness to be implemented across CCPs, DTCC offers the following responses to the series of questions set forth in the Consult:

a. **For each parameter input for the responsiveness and volatility risk metrics, please select your preferred choice from the list below or provide an alternative option. Please provide an explanation and any supporting evidence for your choice**.

   i. **Large call window: five or 20 days.**

[26] *See* Consult page 26 and associated Annex A.

[27] *See* Consult, page 35.

A longer call window is most appropriate in order to minimize false positive outcomes inherent with shorter call windows.

ii. **Observation period: one quarter or one year.**

An annual period of 12 months with a long lookback, such as 5 years, would be more appropriate.

iii. **Product vs portfolio reporting: Product, static portfolio or dynamic portfolio. If supporting product-level reporting, please provide information on which products should be reported by the CCPs. If supporting static and/or dynamic portfolio reporting, please provide information on how the portfolios should be determined and an explanation for how that one portfolio would be representative of clearing activity at the CCP.**

At the CCP level is likely most appropriate given the diversity of members and portfolios served by DTCC's CCPs.

iv. **Volatility risk metric: Standard deviation or VaR (99%).**

Benchmark to realized volatility.

v. **Volatility risk metric lookback period: 90 days or two years.**

As noted above, DTCC believes that the lookback period should be determined by the CCP.

Qualitative Transparency: Proposals 3-4 & 7-8

Proposal 3 (Qualitative disclosures to participants, Margin model documentation)

Proposal 3 provides that, 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 should include (i) 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 (ii) the logic, applicable thresholds and data used for calculation of margin add-ons. As described above, DTCC supports efforts to increase margin transparency and therefore provides access to our margin component documentation to our members and the public.[28]

Proposal 4 (Disclosure of APC tools used in margin model)

Proposal 4 provides that CCPs should publicly disclose and describe the anti-procyclicality (APC) tools used in their margin model. CCPs should also publicly disclose and describe, at a high level, the margin components that affect the level of margin responsiveness. DTCC agrees

[28] *Supra* note 10. DTCC expects to make the NSCC margin component guide available on this microsite in the near future.

with the Consult's discussion of the benefit of publicly providing information on the tools and components of a margin model which have effects on margin responsiveness, but we disagree that additional policy work or new standards in this area are necessary.

This is because in accordance with the PFMI/CCAS, and as referred to in the Consult, CCPs already address procyclicality in their respective margin arrangements, including through documented policies and procedures.[29] This subject matters is also covered in the Margin section of the CCP resilience guidance (See Sections 5.2.38-5.2.43 ("Measuring and addressing procyclicality in the CCP's margin system" and Sections 5.2.43-5.2.44 "Addressing procyclicality in other related areas").[30]

We appreciate that as stated in the Consult, the Proposals in this section are "[…] not to mandate a specific form/template of communication, but to broadly increase the level of detail of information, primarily related to margin responsiveness, that is shared with relevant stakeholder." Indeed, NSCC's and FICC's approach to addressing procyclicality is based upon the products and markets served. We believe that the level of detail and rationale for our margin approaches provided in the FICC/NSCC CCAS disclosures as well as our margin component documentation provide what is necessary and useful for our CMs and the public.

For example, as to procyclicality, the FICC Disclosure Framework (PFMI/CCAS 6), describes that, "The choice of the VaR look-back period reflects a balance between stability of the VaR calculation and appropriate responsiveness to changing market conditions. FICC addresses the procyclicality of the formula by adopting a 10-year lookback period that incorporates an additional stress period if FICC determines that the historical look-back period does not contain adequate shocks, utilizing a VaR Floor and ongoing Member outreach, seeking to increase Member awareness of this impact."[31] Similarly, the NSCC Disclosure (PFMI 6) also provides similar level of detail and the associated rationale: "The choice of the VaR look-back period reflects a balance between stability of the VaR calculation, and appropriate responsiveness to changing market conditions. NSCC addresses the procyclicality of the formula through ongoing Member outreach, seeking to increase Member awareness of this impact.

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[29] See Key Consideration 4 of Principle 6 (Margin) of the PFMI.

[30] *Supra* note 15.

[31] *Supra* note 6.

Further, incorporation of an evenly weighted volatility estimation provides a buffer during periods of low volatility."[32]

Proposal 7 (Framework for Assessing Model Performance and taking appropriate action)

Proposal 7 provides that 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 is intended to 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, as needed. The Margin group further notes that a full assessment would, for example, assess and balance (i) the level of margin coverage; (ii) the average margin cost, and (iii) a measure of margin responsiveness, all computed over the same lookback period, ideally covering a spectrum of market conditions.[33] DTCC is generally supportive of Proposal's governance framework requirement and the DTCC CCPs already have a model risk framework and related risk frameworks in place pursuant to applicable SEC requirements and the PFMIs.[34] Additionally, NSCC and FICC address how the CCPs address procyclicality and wrong-way risk in their respective PFMI Disclosure Frameworks.[35] We appreciate the Consult acknowledging the fact that a CCP's framework is likely to depend on both the product mix cleared and the mix on member portfolios.[36] However, we ask that any final proposal clarify that CCPs have the flexibility to design their risk and governance frameworks

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[32] Id.

[33] *See* Consult page 27.

[34] The DTCC Model Risk Framework sets forth the manner in which NSCC and FICC identifies, measures, monitors, and manages the risks related to the design, development, implementation, use, and validation of quantitative models in accordance with applicable legal requirements, including CCAS 17Ad-22(e)(4), (6), and (7), and addresses related matters. The Model Risk Framework has been filed with and approved by the SEC and is reviewed and approved by the Board on an annual basis. https://www.dtcc.com/-/media/Files/Downloads/legal/policy-and-compliance/NSCC-Disclosure-Framework-2023-Q4.pdf and https://www.dtcc.com/-/media/Files/Downloads/legal/policy-and-compliance/FICC-Disclosure-Framework-2023-Q4.pdf

[35] Supra note 5 (Principle 6: Margin; CCAS 17Ad-22(e)(6).

[36] *See* Consult pages 27-28. Additionally, the Consult includes a graphical depiction of one potential quantification of the three dimensions described for a few different (hypothetical) models (page 28).

and assessments, including the composition, nature and scope, based on their risk management practices and in accordance with applicable regulatory requirements. Further, in considering these issues, we suggest that the Margin Group bear in mind the difference in the securities cash clearing market and the cleared derivatives market and how those distinctions also impact a CCP's approach to assessing overall margin performance.

Proposal 8 (CCPs use of discretion to override model margin requirements)

Where CCPs make use of discretion (e.g., expert judgement) to override model margin requirements, Proposal 8 would require CCPs to, among other things, (i) 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, (ii) publicly disclose relevant information regarding the scenarios where discretion may be applied and the governance procedures used in application of such discretion, and (iii) publicly disclose, through additions to the PQDs, the aggregate size and duration of manual margin overrides, as compared with unadjusted IM requirements. The rules of the DTCC CCPs are required to be reviewed and approved by the regulators, [37] and once finalized, are not subject to unilateral change by the DTCC CCPs. As a result, as a practical matter, with regard to Proposal 8, the SEC rule filing process makes the ability to apply overrides to its rules-based margin models not relevant for NSCC and FICC. However, we ask that the Margin Group provide clarity on what a CCP's ability to "override" means relative to other concepts addressed in the Consult so that CCPs can understand and implement the other Proposals, if adopted, consistently with the Margin Group's intent. For example, add-on charges (which in effect can serve to override a standard margin calculation) or non-margin-based measures such as a requirement for a CM to provide a CCP with adequate assurances or other financial risk measures that CCPs can take based on factors outside of those captured by the margin model (i.e., operational risk presented to the CCP by a CM or reputational risk). Notwithstanding the foregoing, we suggest that if Proposal 8 is adopted, that the Margin Group make clear that CCPs have extraordinary powers that extend beyond the margin model in market disruption circumstances, but that those powers are bound by strict governance and regulatory oversight. In other words, CCPs are entitled to exercise discretion, when necessary, but subject to relevant regulatory requirements.

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[37] *See* FICC and NSCC Disclosure Frameworks, Legal basis; CCAS 17Ad-22(e)(1).Generally, before a proposed rule change may take effect, (1) the change and an explanatory statement, completed pursuant to the SEC Form 19b-4, must be filed with the SEC and posted by NSCC or FICC, as applicable on DTCC's website, (2) notice of the filing and the substantive terms or description of the change must be published by the SEC in the Federal Register for public review and comment, and (3) the SEC must approve the change (or the change must otherwise be permitted to take effect). Similar submission, disclosure and publication requirements apply to the Advance Notice process.

Clearing member transparency: Proposals 9&10

Proposals 9 and 10 (Enhancements to CM-to client transparency)

Proposals 9 and 10 recommend a number of enhancements to be made by CMs to ensure their clients have sufficient understanding of their margin requirements. Additionally, Proposal 10 would require CMs to disclose additional metrics to the CCPs of which they are members on a quarterly basis. As note earlier herein, DTCC supports increased transparency among market participants and appreciates the Margin Group's consideration of measures to improve the communication between CMs and their clients and the CCPs. DTCC firmly believe that promoting meaningful communication between CCP and CMs must be at the heart of any proposal that seeks to increase transparency and understanding of margin requirements. In our view, any measures that are too prescriptive in terms of how such communication should be managed (whether prescribing what CCPs do or CMs do), will adversely affect the opportunity for increased dialogue and we hope the Margin Group will take this into account when determining whether to adopt the Proposals.

The Importance of the Consultative Process for Further Work

The CCP resilience guidance was developed based upon painstaking public sector and industry consultation that ultimately resulted in a well-reasoned and informative publication that successfully reinforced the conclusion that the PFMIs are indeed an effective and robust set of standards that facilitate the role of FMIs in supporting global financial stability. The path that flows from this Consult to any reopening of the CCP resilience guidance should follow the same goals and outcomes. In addition, it is not immediately clear from the text in the Proposal that discusses potential implications for the CCP resilience guidance how any amendments would actually appear and operate in practice. In other words, we do not believe that there is enough detail in the Consult to comment meaningfully on how the CCP resilience guidance would also evolve if any Proposal(s) were adopted. Accordingly, DTCC recommends that, if any of the Proposal(s) are adopted, then any proposed ensuing amendments to the CCP resilience guidance first be proposed for public consultation before moving to any final status. Such a comment process would be in addition to the process associated with the Consult.

We appreciate the opportunity to comment on the Proposals and the Margin Group's consideration of our views.

Very truly yours,

Timothy J. Cuddihy
Managing Director
Group Chief Risk Officer