

Deutsche Börse Group response
to the
BCBS-CPMI-IOSCO Consultative Report
on
Transparency and responsiveness of
initial margin in centrally cleared markets
– review and policy proposals

Frankfurt, 16 April 2024

1. Introductory Remarks

The CCPs Eurex Clearing and European Commodity Clearing (ECC) are part of Deutsche Börse Group (DBG). DBG appreciates the ongoing work of the BCBS-CPMI-IOSCO Margin Group on harmonisation and centralisation of global standards for CCPs and the close cooperation with the relevant stakeholders to achieve the optimal degree of effective transparency. We have always committed to the importance of transparency of margining practices for market participants to predict liquidity needs under different market conditions, e.g., through our Pioneering CCP transparency series or enhancements of the PQDs and are constantly looking for ways to enhance our margin methodologies ensuring robust margining based on a risk-based approach and appropriate responsiveness of margins to changes in market conditions.

Against this background, we support the objective of the international standard-setting bodies to increase the transparency of margin models and to better understand CCP margin models' responsiveness of both centrally cleared and non-centrally cleared markets. While we welcome the policy recommendations provided for CCP and bilateral models, **we note that the proposed requirements for centrally cleared markets are more granular and stringent than for the non-centrally cleared world**, thereby widening the transparency gap between cleared and uncleared market spaces. For convergence, the recommendations for the non-centrally cleared markets should go further. There is a risk that excessive regulatory requirements on transparency for centrally cleared markets impair the positive trend to increase the share of centrally cleared derivatives. Unilaterally increasing transparency requirements could increase the costs for CCPs and thus support the transfer into the unclear market space (see response to question 4).

It is important that the topics surrounding (1) margins of CCPs; (2) margins between members and clients; and (3) margins in uncleared space are viewed collectively. If enhancements are done only to one element while ignoring the others, it may result in unintended consequences. On a positive note, it appears that there is some convergence across large CCPs to Portfolio Margin Models – that are also ex-ante predictable (e.g., CME SPAN 2, ICE IRM 2.0, Eurex Prisma since 2013). However, there is a disparity in terms of some parameterisation in place in terms of MPOR and Anti-procyclicality components, which ideally has to be addressed across jurisdictions.

Therefore, we still see potential when it comes to **further alignment and greater consistency of global transparency requirements**. With EMIR 3.0, EU CCPs will soon have to implement additional requirements around margin transparency and responsiveness. From an EU perspective, it is hence important for local and global standards not to diverge in order to ensure a level playing field, both between EU and non-EU CCPs and non-centrally cleared markets. At the same time, we would like to raise awareness of the risk of contradictory outcomes.

We agree that the proposals in the consultative report will result in increased transparency from CCPs to Clearing Members and clients. However, **while transparency provisions are a necessary condition, they are not sufficient to ensure that Clearing Members and clients incorporate the information provided by the CCP into their liquidity preparedness**.

The Margin Group should also **pay attention to the transparency from Clearing Members to clients and vice versa**, for instance as part of the Margin Group's workstream on Clearing Member liquidity preparedness. Clearing Members only see a sub-set of positions, while clients may have unknown positions with other Clearing Members, other clients, and/or other CCPs (see response to question 2). Equally, it is important that clients understand how and to what extent Clearing Members' actions alter the margin

responsiveness of CCPs vis-à-vis end-clients (see response to question 9). In that context, Clearing Members should ensure transparency to clients regarding Clearing Member-level margin add-ons or discretionary model overlays, and their effect on margin responsiveness for clients (compared to a full unchanged pass-through of CCP margins to clients). Hence, margin transparency and margin responsiveness require a holistic approach that includes both: (i) transparency in the CCP-to-Clearing Member relationship and (ii) transparency in the Clearing Member-client link. Since the link between Clearing Members and client is quite different from the link CCP-to-Clearing Member, we believe that a higher level of transparency would be justified and beneficial. In addition, the proposal should also consider other transparency perspectives, such as transparency from client to Clearing Members; transparency from Clearing Members to CCPs with respect to uncleared exposures of Clearing Members in similar products; and tiered transparency from the CCP to the different participants (Clearing Members, clients, regulators, general public).

While the role of CCPs is to manage the default risks of Clearing Members, the role of Clearing Members is to manage the risk of a client default. If regulatory expectations go beyond this, then more consideration should be given to other more targeted disclosure solutions and who should provide or respectively receive more information (see response to question 10).

Furthermore, DBG believes that all Margin Group's proposals should be uniformly applied to the respective market participant group. Since CCPs, Clearing Members and clients differ in terms of the asset universe and the complexity of the portfolios, the principle of proportionality is already indirectly anchored therein (see response to question 3).

Generally, the **introduction of new transparency tools should follow the principle of proportionality**, i.e., a cost-benefit analysis to ensure that the costs borne by CCPs developing the tools are balanced with the added value for the market and be mirrored by the mandated use of such tools in liquidity preparedness programmes. In our view, the added value of the proposals for the decision-making of market participants is not always given. We also want to highlight, that there is a risk that exceedingly high transparency on CCP's margin models could have a destabilising effect during market stress events if information without any context for margin calls that are likely to be met lead to speculation. High margin payments are not necessarily a cause for concern as they could simply reflect increased volatility or significant price changes in the market. Any additional disclosure requirement should enhance transparency on CCP margin models and foster comparability of margin model design choices and key parameters. Instead of introducing new requirements, the application of the current setup should become more effective.

Margin simulator tools are important instruments for anticipating changes in margin requirements, so we appreciate the recommended standardisation. However, the right cost-benefit-ratio must be kept in mind, particularly for hypothetical portfolios and hypothetical scenarios. Although we support the objective to enable users to take a forward-looking view and anticipating initial margin requirements under various scenarios, we deem the value of enhancing the simulator functionality to be significantly lower compared to the costs associated with the implementation and maintenance of this functionality. Apart from that, we believe that valuable information can also be obtained by measuring margin responsiveness (see response to question 7). Further, we do not believe that the CCP's current set of extreme but plausible stress test scenarios is fit for purpose as the application of individual scenarios does not enable the users to fully assess changes in initial margins as a single day margin change does not fully capture the response of the model to a market shock. It is also worth mentioning that CCPs do not have a contractual relationship with clients, and thus, typically have no knowledge of end-clients, unless they are disclosed clients, and thus cannot provide their position data, which affects the possibility to make simulators available to them (see response

to question 5).

The **public disclosure of quantitative elements (PQDs)** is an important transparency tool. However, we do not see the benefit of increasing frequency and decreasing the lag of product-level back-testing results to daily disclosure obligations (large margin calls follow market volatility). Short-term disclosure obligation might shift the purpose of PQDs from a risk assessment resource to an active risk management tool. In that sense, we also have concerns about potential inferences about client or Clearing Member identities behind large margin calls that may be made based on daily disclosures during the times of market distress. We thus recommend that all such disclosures are performed with a one-month lag. We also recommend amending the PQDs to receive greater granularity of the CCP disclosures, in particular about the key risk parameters of margin models (see response to question 6).

We appreciate the Margin Group's recommendations for a **common measurement of margin responses to volatility**, as we believe that a globally aligned measurement is essential. Thus, we would like to reiterate our recommendation from the working group's phase 1 report that a globally aligned and outcomes-based approach to anti-procyclicality would be most useful that builds on three elements, with a view to provide a common understanding as to what shall be achieved and what is considered an appropriate level of procyclicality and hence of an appropriate level of margins. First, a common policy goal for anti-procyclicality should be defined to dampen the effect of margin pro-cyclicality subject to sufficient margin coverage. In a second step, a common definition of anti-procyclicality itself should be added. And thirdly, a common measurement approach and metrics would emerge to allow for comparability of margin responses across CCPs. We also note that the existing gap between EU and global standards when it comes to a closed-set of APC tools to be mandatorily applied in margin models, would continue to exist (see response to question 7).

We agree that the proposed method for measuring margin responses to volatility changes is a suitable approach for measuring responsiveness. However, the "large call metric" is only a reactive and short-term measure for current changes in margin requirements and therefore not suitable for the long-term planning of liquidity preparedness. Thus, we believe the **measure should be complemented with a long-term measure of procyclicality**. We would recommend using the 99%-quantile of the "N-day peak-to-trough ratio". Generally, volatility is just one model input. We recommend the "impulse response functions" as an additional secondary measure, which would provide a standardisation of the magnitude of volatility shocks across CCPs (see response to question 7a). For the responsiveness and volatility risk metrics, we recommend (i) applying 20 days for the large call window; (ii) one year for the observation period; (iii) product-level reporting; (iv) the VaR margin for the volatility risk metric; and (v) 90 days for the volatility risk metric lookback period (see response to question 7b). In addition, two further parameters could be considered. We would propose to replace the "max"-operator by 99%-quantile and 1%-quantile. With respect to the window size around the margin-increase peak value to determine the volatility observation period, the Margin Group could consider extending this parameter from 10 to 20 days (see response to question 7c). Finally, there are three elements to consider when developing and using the proposed metric and ensuring comparable outcomes: (1) choice of a suitable risk factor or volatility measure for non-linear risk profiles; (2) consideration of noise in margin models; and (3) using a limited set of parameters to avoid high costs (see response to question 7d).

While analytical frameworks of CCPs on assessing margin responsiveness are indispensable, it is important to clearly understand and **separate the roles and responsibilities between CCPs and regulators** in balancing the associated trade-offs. Furthermore, it should be the responsibility of the CCP to find the

balance between the three factors “margin coverage”, “margin responsiveness” and “margin costs” within the trade-off framework, whereas minimum standards on margin coverage are met. In consequence, it should not be the role of regulator to take operational decisions within a CCP. When it comes to a prioritisation of “margin coverage” and “margin responsiveness” we agree with the Margin Group on the prioritisation in the sense that “limiting the need for destabilising, procyclical changes is secondary (...) to generating margin requirements sufficient to cover a CCP’s potential future exposure” (see response to question 8).

We trust that our comments are useful for the Margin Group’s further policy work and remain BCBS-CPMI-IOSCO’s disposal for further discussion.

2. Detailed comments to the consultation report

1. *Collectively, if adopted, would the set of proposals likely result in increased transparency and a mitigation of destabilising changes in margin requirements in centrally cleared markets? Please identify within the set of proposals any which would be particularly beneficial and others which may be less beneficial (e.g., where the costs may substantially exceed the benefits). Please provide an explanation to your answer.*

In general, DBG agrees that the proposals will result in **increased transparency**. However, in our view, a globally aligned measurement of margin responsiveness is particularly essential, whereby it is important to carefully design appropriate measures. While analytical frameworks of CCPs on assessing margin responsiveness are indispensable, it is important to clearly understand and separate the roles and responsibilities between CCPs and regulators in balancing the associated trade-offs.

Margin simulator tools are important instruments for anticipating changes in margin requirements. Therefore, DBG welcomes the standardisation of the requirements for margin simulator tools. However, the right cost-benefit-ratio must be kept in mind, particularly for hypothetical portfolios and hypothetical scenarios – where it is not evident that envisioned benefits cannot be achieved with other tools.

PQDs are important disclosure tools. However, we recommend to avoid the proposed increase in the frequency for the disclosure of product-level back-testing results. Rather, a reporting frequency with a one-month lag would be sufficient because the PQDs are not an active risk management tool and liquidity preparation is a long-term task that must be completed before crisis events. We also recommend greater granularity of the CCP disclosures, in particular about the key risk parameters of margin models (e.g., a harmonised MPOR, confidence level and lookback period) as mentioned in our response to question 6a. Back-testing against those parameters would allow for better comparability across CCPs.

While the proposal would make significant progress in transparency from CCPs to Clearing Members and their clients, transparency from Clearing Members to clients and vice versa is not addressed. However, there is a need that clients better understand to which extend the margin practices of the Clearing Members amplify or dampen the CCP margin responsiveness for end-clients.

When it comes to the **mitigation of destabilising changes in margin requirements**, we would like to point out that the success cannot be determined solely by evaluating a set of proposals. Since the focus of the proposals is on the provision of transparency on margin practices from CCPs to Clearing Members and clients, the absorption of this transparency on margin practices by Clearing Members and clients remain largely unaddressed. DBG considers transparency provision as a necessary, but not sufficient condition to ensure that Clearing Members and clients incorporate the information provided by the CCP into their liquidity preparedness.

2. *Are there any aspects of margining practices in centrally cleared markets that have not been adequately covered by the set of proposals and which could positively contribute to achieving the Margin Group's objectives?*

We would like to address two aspects that are not covered adequately:

1. **Lack of reverse transparency from clients to Clearing Members:** Clearing Members lack

information about the entirety of a client's positions. They only see a sub-set of positions, while clients may have unknown positions with other Clearing Members, other clients, and/or other CCPs – in both cleared and uncleared markets. Based on our conversations with Clearing Members, we have heard this could be an issue. For example, risk concentrations of individual clients might not be identified, and can consequently not be addressed (such as through concentration add-ons). Clearing Members have their own toolkit to address risks, but in order to use it, the risks must first be identified.

2. **Operational requirements for Clearing Members and clients on margin simulator tools:** We see the risk that the objective of the Margin Group's proposals to improve "preparedness of market participants to meet margin calls" could fail. The proposals primarily focus on enhancing the **information generation** on transparency of margin practices including predictability of margin calls. Yet, the proposals do not foster the corresponding information absorption by Clearing Members and the end-clients. It is implicitly assumed that the information provision by CCPs is sufficient for Clearing Members and clients to be prepared. However, this piece is only a necessary and not a sufficient condition. Regulatory operational requirements for Clearing Members and clients, such as a connection to and the use of a CCP margin simulator could foster information absorption by Clearing Members and clients.

3. *Many of the proposals recommend that a market participant group (e.g., all CCPs, all CMs etc.) be required to provide enhanced disclosure or adopt a new practice. Should the principle of proportionality, with requirements dependent on participant size or type, be used in determining how different firms apply the proposals? If so, in what ways? Please specify the proposal(s) in your response.*

DBG believes that all Margin Group's proposals should be uniformly applied to the respective market participant group (e.g., CCPs, Clearing Members or clients). Since CCPs, Clearing Members and clients differ in terms of the asset universe and the complexity of the portfolios, the principle of proportionality is already indirectly anchored therein. For example, a CCP with a smaller product scope need to consider fewer portfolio diversification effects to determine the right balance between margin coverage and margin responsiveness. It is therefore appropriate that the principle of proportionality is not explicitly applied.

4. *Are there cases in the proposals where there could be an effect on bilateral market margining? If so, what are the factors or instances that should be taken into consideration to ensure that proposals for cleared markets do not negatively affect dynamics within other markets?*

DBG supports the 2009 G20 Pittsburgh summit decision to enhance the safety and resilience of derivatives markets and the CCP as central piece in the global financial architecture. Significant progress has been made to reduce counterparty credit risk by making central clearing mandatory, and enlarging the scope of centrally cleared derivatives. Safe and resilient CCPs have made an important contribution on resilience of overall financial system in recent crises events such as at the outbreak of the COVID-19 pandemic and the Russo-Ukrainian war.

While reducing pro-cyclicality of margins and enhancing the preparedness of market participants to meet margin requirements in extreme stress events are important objectives, it remains equally important to

carefully design the actions needed to achieve these objectives. There is a risk that excessive regulatory requirements on transparency across a variety of dimensions undermine the overall G20 policy objectives and impair the trend to increase the share of centrally cleared derivatives. In particular, the Margin Group's proposals further widen the transparency gap between cleared and uncleared market spaces.

Finally, we would like to highlight the benefits of an outcome-based approach of regulation that ensures that advances in initial margin transparency and responsiveness do not place an undue burden on CCPs. Otherwise, that could increase the costs for the centrally cleared market space and, therefore, supporting transfer to the uncleared market space.

5. Proposals 1 and 2 recommend that margin simulation tools be made available by all CCPs to all CMs and clients, with enhanced functionality.

We consider margin simulation tools to be an integral part of our suite of solutions to enable transparency on margin requirements for the public. Although we support Margin Group's objective to enable users to take a forward-looking view and anticipating initial margin requirements under various scenarios, we deem the value of enhancing the simulator functionality (with (customizable) stress scenario calculations) to be significantly lower compared to the costs associated with the implementation and maintenance of this functionality. We believe that the policy objective can be achieved with the assessment of the "impulse response function" (see response to 7.d).

a. Are there certain modes of access to CCP simulation tools which are less costly or more effective?

The mode of access selected by the user depends on its level of sophistication. On the one hand, APIs allow more flexibility in terms of integrating the simulation tools into the user's processes. On the other hand, GUI sets a lower entry barrier for users and allows for more interactivity. Although we consider GUI to be more effective, we believe that both access modes must be made available to the user.

b. Are there any impediments to making simulators available to clients? To what extent could these impediments be mitigated or resolved, e.g., by changing the mode of providing access to tools, or how clients request access to tools? Does this depend on the format of CCP tool (e.g., the use of cloud technology, the use of APIs, etc.)?

We see the following impediments to making simulators with the extended functionality available to clients:

- As CCPs do not have a contractual relationship with clients, CCPs typically have no knowledge of end-clients, unless they are disclosed clients, and thus cannot provide their position data. **Therefore, the clients would need to enter their position data into the margin simulator.** If the positions are fully transparent to CCP, the application of the simulator tool could be easily facilitated by the CCP or the Clearing Member as position keeping is already available in the CCP's IT systems and can be used to produce margin simulator results.
- In our opinion, the biggest limiting factor is the diversity of the clients and their different capabilities of using the simulators (be it via API or GUI) or also other information channels. As margin simulators and their features become more sophisticated, there is a risk of further increasing

- disparity and worsen the level playing field for the availability of transparency on the client side.
- Cloud hosted simulators cannot access productive portfolios due to security and confidentiality reasons.
 - Margins are calculated on an account level and cannot be replicated accurately for undisclosed clients as their trades are held in a position account with other clients.
 - If the simulators are expected to provide an end-client view, Clearing Member adjustments would be required. As discussed in question 5d, the inclusion of such adjustments into the calculation on the CCP side would not be feasible. Therefore, an accurate calculation of the end-client margin would not be possible.
 - The gap between the requested functionality and the functionality currently offered to the public is significant and a full revamp of the existing simulators would be required to fill this gap. We deem the costs associated with the implementation and maintenance of the extended functionality would not be justified by the rather low added value. To help clients understand the impact of market shocks on their risk and liquidity management, we suggest using the “impulse-response” function on a product level. This would help clients gain a similar insight at a lower cost to the CCPs.

c. Are there any reasons why the proposed historical and hypothetical scenarios to be provided as part of the simulator tool suite should differ from the CCP’s current set of extreme but plausible stress test scenarios?

The CCP’s set of extreme but plausible scenarios are determined as part of the CCP’s stress testing framework and are determined to reflect the market conditions that expose the CCP to the greatest risk. Such scenarios:

1. are individually determined by each CCP, which does not promote comparability of the risk model outputs; and
2. do not necessarily reflect the most relevant risk scenarios for the clients as such scenarios are not used for margining but to size the default fund. These scenarios might also not be relevant for individual portfolios/asset types, i.e., extreme market conditions relevant to the CCP might not affect specific portfolios at all (e.g., 2010 Flash Crash is relevant for an equity portfolio, but not for an IRS portfolio).

Furthermore, the application of individual (extreme but plausible) scenarios does not enable the users to fully assess changes in initial margin as a single day margin change does not fully capture the response of the model to a market shock:

1. any margin model based on filtered scenarios produces lagging effects due to the moving volatility window; and
2. extreme market movements frequently happen rather over a period of time, than over a single day.

Therefore, we believe that the CCP’s current set of extreme but plausible stress test scenarios are not fit for purpose of this question.

In addition, would there be additional value in allowing users to customise their own scenarios within the simulator tool? If so, what types of customisation would be of most value?

We do not see additional value in allowing users to customise their own scenarios as:

1. many products are modelled by applying multiple risk factors (e.g., whole discount & forward curves, FX rates for IRS), which at a portfolio level would amount to a high number of inputs required from the user to run a single scenario. Constructing risk factor scenarios consistently on a portfolio level (with the number risk factors of magnitude close to 1,000) would be almost impossible (require a very high level of user sophistication); and
2. some of the risk factors are modelled by applying model compression (e.g., modelling of volatility surfaces using PCA). In this sense, it would be difficult to define input scenarios and assign an economic meaning to them.

d. Are there any elements of the initial margin calculation (e.g., add-ons) which would be difficult to incorporate into a standardised simulation tool? If so, what are the relevant challenges?

We would like to mention two types of add-ons:

1. **Add-ons which are included into the core margining (e.g., portfolio-specific add-on):** So far, we have not seen any difficulties incorporating the add-ons into the simulators.
2. **Add-ons, which are not included into the core margining and are linked to the Clearing Member level across many clients (e.g., Clearing Member level concentration risk, wrong way risk):** Inclusion of such add-ons is either difficult (as the Clearing Members distribute the associated costs based on their internal models) or impossible due to confidentiality of the Clearing Members exposures, which are not known to the end client (e.g., details which would reveal creditworthiness of a Clearing Member).

6. Proposal 5 recommends a set of changes to the PQDs, further detailed in Table 5 of the report.

a. With reference to Table 5, would the proposed additional data breakdowns and increased frequency of reporting facilitate market participants' understanding of the margin system?

We strongly support CCP transparency and market stability. However, we question the benefits of reporting at a one-day frequency versus a one-month frequency for the decision making of the Clearing Members and clients. To ensure a high level of reporting quality, CCPs need sufficient time for calculation, quality assurance and governance of the required data. A one-day frequency would mean a lot of additional effort for the CCPs despite low added value for Clearing Members and clients. We would also like to emphasise that PQDs are not suitable as a risk management tool and that they are not forward-looking.

From our point of view, the following arguments support our concerns:

- In crisis situations, market participants' best approach to predicting short-term liquidity needs for liquidity risk management is to monitor VM and IM margin calls on their CCP on a daily basis. Since these are based on the individual portfolio, they are a much better predictor for short-term liquidity needs than the generic portfolio published by CCP (portfolio composition is very likely to vary depending on the specific market participant).
- Since market participants' liquidity preparedness must occur before crisis events, a higher reporting frequency and a lower reporting lag do not help market participants in their liquidity preparedness.
- There is a risk that the proposed very high transparency on CCP's margin models could have a destabilising effect during market stress events. Information without any context for margin calls

that are likely to be met can lead to speculation due to irrational behaviour during a crisis event. High margin payments are not necessarily a cause for concern as they could simply reflect increased volatility in the market with sufficient liquidity of Clearing Members being able to meet the margin obligations.

- Finally, it is particularly important to ensure the confidentiality of margin data and that no data is provided that allows market participants to find out the positions of other market participants.

b. Would there be any challenges in providing the additional data breakdowns or higher reporting frequencies? If so, are there alternatives that would be equally effective? For instance, are there alternative modes of more frequent public disclosures that would achieve a similar goal but result in reduced burdens on CCPs?

Please refer to our answer on question 6a.

We would also like to emphasise that Eurex Clearing already provides additional product-level data breakdowns for key benchmark products to enhance transparency.

c. Are there any additional amendments to the PQDs, beyond those set out in Table 5, that would help market participants and stakeholders understand or anticipate changes in margin requirements? What would this information be, and how could this information be effectively incorporated into the PQD framework? For instance, would there be value in including additional non-quantitative information in the PQDs related to margin changes?

Any additional disclosure requirement should enhance transparency on CCP margin models and foster comparability of margin model design choices. Instead of introducing new requirements, the application of the current setup of disclosures should become more specific. We recommend amending the PQDs to receive greater granularity of the CCP disclosures, in particular about the key risk parameters of margin models (e.g., MPOR, confidence level and lookback period).

More specifically:

- For example, market participants are currently encountering entries for MPOR such as 1-2 days. Without knowing which products are subject to the 1-day MPOR and which to the 2-day MPOR, this information is not very meaningful. The same applies to the confidence level and the lookback, which are considered key model assumptions and core model parameters.
- Information should help ensure market participants' margin calculations and associated risks when selecting a CCP.
- Furthermore, the transparency of the model assumptions regarding netting and diversification benefits, including cross-margining of products, should be improved. For example, information on the set of product types contained within a liquidation group would be helpful.

Finally, a better comparability of margin models helps that CCPs do not compete on risk.

d. Are there any examples of current public disclosures by one or more CCPs which could be used as a guide for improved transparency?

Eurex Clearing has been publishing its PQD since 2015 and continues to strongly support CCP transparency and market stability. Started in 2017, Eurex Clearing began a series of commentaries¹ to highlight key trends, discuss current topics and shed some light on selected data points. These commentaries deal, among others, with product-level back-testing (part 7); forward looking margin simulations into periods of stress (part 8); details of margin exceedances in different back-testing approaches (part 9) and; option back-testing and margin response to market shocks (part 10).

7. Please review the analytical annex detailing the proposed design of a margin responsiveness metric, as described in Proposal 6.

We appreciate the Margin Group's objective to provide a common measurement for margin responses to volatility. We agree that specifying a commonly accepted measure helps to quantify and globally harmonise measurement, however, a common approach to the measurement alone will not do the trick as a common objective and definition are missing for which the measurement shall be used. Therefore, we would like to reiterate our recommendation from the working group's phase 1 report that a globally aligned and outcomes-based approach to anti-procyclicality would be most useful that builds on 3 elements, with a view to provide a common understanding as to what shall be achieved and what is considered an appropriate level of procyclicality and hence of an appropriate level of margins:

- First, a **common policy goal for anti-procyclicality** should be defined. At this stage, it appears unclear whether the objective is to limit margin pro-cyclicality to a common level or the policy goal is for anti-procyclicality measures to dampen the effect of margin pro-cyclicality subject to sufficient margin coverage. In our view, the latter approach would better accommodate a wide spectrum of asset classes, trading strategies and portfolios. While we welcome the provision of some high-level notions in the current report with respect to the policy objective, such as on page 29 where the Margin Group refers to the reduction of pro-cyclicality of margin on the basis of sufficient margin coverage, we would recommend a clear definition as a starting point.
- A **common definition of anti-procyclicality** itself should be added in a second step. On the one hand, one could either consider only a short-to-medium horizon with respect to the margin response to changes in market volatility and thereby provide a direct measure for Clearing Members and clients' ability to predict margin calls and their respective liquidity needs in market volatility. Such an approach would be most closely aligned to the above-mentioned policy goal of anti-procyclicality management. On the other hand, a long-term horizon could be considered in addition, i.e., focusing on Clearing Members and clients' long-term planning on liquidity preparedness informed by transparent potential (maximum) magnitude of margin fluctuations through the cycle. Thereby, an indirect measure for Clearing Members and clients' ability to meet margin calls from increases in market volatility, through a channel of their long-term liquidity preparedness. Such an approach would be aligned with the policy objective to promote financial stability.
- A **common measurement approach and metrics** would come in third to allow for comparability of margin responses across CCPs.

In this context, we would like to highlight the latest regulatory decisions taken in the EU to address the lack of a common understanding flagged above. With the latest revision of EMIR as the central framework for

¹ <https://www.eurex.com/ec-en/services/risk-management/ccp-transparency>

EU CCPs, ESMA as the EU market authority has been mandated to define procyclicality and on that basis to revise the existing EU anti-procyclicality tools. IOSCO may want to consider a similar approach in close alignment with the EU's upcoming work.

a. Is the proposed method for measuring margin responsiveness (i.e., a large call metric), alongside the associated change in volatility, an informative way of measuring responsiveness? If not, what alternative approach or methodology should be used, and why would that alternate approach better aid market participants in their liquidity planning?

We agree that the proposed method for measuring margin responses to volatility changes is a suitable approach for measuring responsiveness.

Nevertheless, we would like to highlight the importance from a technical perspective that the “large call metric” is based on **initial margin**, as proposed by the Margin Group. In our view, the “large call metric” is a short-term measure of procyclicality and should therefore be a **primary** measure, in line with our view of the policy objective and definition of anti-procyclicality above.

There are however two shortcomings of the “large call metric”:

- As mentioned above, it is only a reactive and short-term measure for current changes in margin requirements and therefore not suitable for the long-term planning of liquidity preparedness of Clearing Members and clients. Thus, we believe that the “large call metric” should be complemented with a long-term measure of procyclicality. For such a long-term metric, we would recommend using the 99%-quantile of the “N-day peak-to-trough ratio” as listed in the consultation paper’s appendix on page 45. Adding “peak-through” as a **secondary** measure would be consistent with the above recommended definition of anti-procyclicality and provide a measure of the long-term funding uncertainty through-the-cycle to Clearing Members and clients, enhancing market participants’ ability for their liquidity planning.
- In addition to volatility changes, there is (a lot of) noise from other factors that affect the results of the margin model. Generally, a change in margin depends on wide variety of changing factors, of which volatility is just one model input. Hence, it is difficult to separate the signal of volatility change, to noise of all other confounding factors. Against this background, we recommend an additional **secondary** measure, i.e., “impulse response functions” which would provide a standardisation of the magnitude of volatility shocks across CCPs. To illustrate, for instance, for different multiples of standard deviation of volatility shocks while all other inputs remain unchanged, the response of margin would be computed over a ten business days period. This metric should be applied on product-level to the top 20 products and should be computed on a monthly basis with a one-month lag. The advantage of such an approach would be that there would be a controlled environment for CCP specific margin models that focuses on output changes by just adjusting one model input while leaving else constant; reduces noise of all other factors besides volatility measure.

b. 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.*
- ii. *Observation period: one quarter or one year.*
- 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.*
- iv. *Volatility risk metric: Standard deviation or VaR (99%).*
- v. *Volatility risk metric lookback period: 90 days or two years.*

For the parameters for the responsiveness and volatility risk metrics, we would like to recommend the following choices:

- i. For the **large call window**, we recommend applying 20 days. Such an approach would be aligned with the Basel liquidity coverage ratio (LCR) time-window and from an empirical perspective, there would be no difference.
- ii. For the **observation period**, we recommend choosing one year, because this would ensure a larger sample size and a more comprehensive view on margin responsiveness across different events.
- iii. For **reporting**, we recommend product-level reporting as it would provide a higher comparability across CCPs. As alluded to above, multi-product portfolios depend on multiple risk factors. While matching a single risk factor of volatility with a single product implies the caveats outlined below, product-level reporting would ensure a more consistent view of the general objective of “margin responsiveness”. For measuring responsiveness of the model using dynamic portfolios, one can refer to the margin calculator, but for a static portfolio, it would likely be very difficult to globally align across CCPs with different asset types. Due to the those concerns on non-linearity of risk profiles we suggest complementing the product-level measure with a second portfolio-level measure: Adding portfolio-level reporting would capture non-linear effects both at the product-level as well as resulting from portfolio composition and would allow for the construction of static standardised portfolios and for comparability across CCPs of margins at portfolio-level. Nevertheless, it should also be considered that there is a different asset-/product-universe across CCPs. Therefore, the choice may for example be based on the materiality of products, and typical portfolio structures of Clearing Members and clients. As alluded to above, dynamic portfolios can be covered on the other hand via CCPs’ margin simulators by Clearing Members and clients.
- iv. For the **volatility risk metric**, we believe that with VaR margin as the chosen metric, the responsiveness would only be overstated as historical VaR is a rather non-reactive variable (see Figure A.4 and A.6). Hence, we recommend choosing the standard deviation. With such an approach, an appropriate reactivity of the volatility measure would be ensured. Nevertheless, it should be considered that using standard deviation as a metric is suitable at the product-level and for linear risk profiles such as futures and swaps, whilst this metric also has its limitations for non-linear risk profiles at the product-level (such as options) and for portfolios. Against this background, we recommend adding profit-and-loss distribution (P&L) to the standard deviation. With such an approach, non-linearities of products and portfolio structures would be covered in P&L that go beyond the volatility measure. In this context it is important to highlight that the exiting PQDs on margins at portfolio-level are not sufficient, because the associated P&L of associated portfolios is

not available. Yet, P&Ls are needed for the comparison of changes in initial margin versus changes in volatility (as indicated in the consultation paper on page 26).

- v. For the **volatility risk metric lookback period**, we recommend applying 90 days because such a lookback period would ensure an appropriate reactivity of the volatility measure, whereas consistent to iv.) above, a 2-year volatility lookback would make the volatility risk metric rather non-reactive and again lead to overestimation of the margin responsiveness.

c. Are there other parameters where calibration decisions are necessary for consistent disclosure of either margin responsiveness or market volatility?

From our perspective, there are two additional elements to be considered for consistent disclosures:

- With respect to the “max”-operator in the formula for measuring “large call measure” and “measure on changes in volatility” (Appendix A.1, page 35 of the report), we would propose to replace the max-operator by 99%-quantile and 1%-quantile. With such an approach, outliers would be excluded.
- With respect to the window size around the margin-increase peak value to determine the volatility observation period, i.e., $W_{\{d\}}$ of the formula on measure of changes in volatility (as referred to on page 35 of the report), we would like to highlight that the 10 days specified in the consultation paper is also a parameter. The Margin Group could consider extending this parameter from 10 to 20 days. With such an approach, a synchronisation of margin and volatility responsiveness would be achieved, which is needed for a meaningful comparison of changes in initial margin versus changes in volatility. If the speed of the margin responsiveness of a margin model is slower, then the 10-day window might not be sufficient to capture entire change in volatility that corresponds to change in margin.

d. Do you foresee any challenges in the development and use of the proposed metric? For instance, are there challenges in applying a harmonised choice of parameter inputs across all CCPs and all products?

From our perspective, there are three elements to consider when developing and using the proposed metric and ensuring comparable outcomes:

- **Choice of a suitable risk factor or volatility measure for non-linear risk profiles:** Products with non-linear risk profiles have more than a single underlying risk factor/volatility measure to compare the change in margin to. Yet, it is important for comparing the changes in initial margin and changes in volatility that both measures are synchronised. For example: for option products, margins might be driven by multiple risk factors and the options for the choice of a suitable risk factor would be the following: (a) if one chooses only one most important risk factor, some risk factors would be ignored for an easy approach and high transparency; (b) if one constructs a composite of multiple risk factors, all risk factors would be used which would result in a more opaque approach that reduces transparency. Our above-mentioned proposal of a secondary measure at portfolio-level with comparison to P&Ls would mitigate this shortcoming.
- **Noise of margin measure:** As alluded to above, an initial margin model output depends on many

factors beyond volatility, while volatility is one important factor. Thus, comparing changes in initial margins to changes in volatility has noise, which is usually larger at portfolio-level than at the product-level. Our proposal of adding the “impulse response function” as another secondary measure to complement the “large call metric” as mentioned above can isolate the effect of change in volatility on initial margin and therefore completely eliminate noise and, therefore, enhance transparency of margin responsiveness across CCPs.

- **A limit set of parameters to avoid high costs:** We would like to highlight the importance to focus on one set of parameters for product-level and one set of parameters for portfolio-level measure with a view to keeping the computation focused instead of applying multiple sets of parameters that would multiply the implementation efforts by the CCP and hence the costs.

8. Proposal 7 recommends that CCPs identify and define an analytical framework for assessing margin responsiveness within the broader context of margin coverage and cost.

a. Are there other important balancing factors which should be taken into consideration when evaluating the performance of initial margin models?

In general, we agree that the main metrics used to assess and evaluate the performance of initial margin models are margin coverage, margin responsiveness, and costs. Yet, it is important not to oversimplify along these three measures.

For example, margin coverage also contains appetite for risk of large outsized margin breaches – that might for example occur for products with more idiosyncratic risk profiles, like single stock dividend futures. In addition, specification of “average margin costs” is a too narrow measure as a broader view on costs measure is necessary, including for example operational costs, IT costs that a CCP faces.

Furthermore, another key balancing factor is the trade-off on simplicity versus complexity of a margin model design. This trade-off affects, for example, effective transparency, costs, potential operational risks, and data dependencies.

Moreover, cost aspect also includes Clearing Member perception on the balance between “survivor pays” principle versus “defaulter pays” principle in balancing between margin requirements and default fund requirements.

b. What elements of the “trade-off” framework would most help regulators to better understand how a CCP balances between important risk management factors? In what ways would this framework be useful in identifying cases where a review of the model by the CCP and/or the authority would be beneficial?

With respect to the trade-off framework on initial margins, we believe that the most crucial elements for the regulator to better understand how a CCP balances between important risk factors result from its mandates on micro-prudential supervision and macro-prudential supervision.

Based on the micro-prudential supervision mandate, specifying the minimum standards on **margin coverage** is essential, while from a macro-prudential supervision mandate, the increase of effective transparency on **margin responsiveness** is crucial.

When it comes to a prioritisation of the two objectives “margin coverage” and “margin responsiveness”, we agree with the Margin Group on the prioritisation lined out in the consultation paper on page 29, last paragraph, i.e., “limiting the need for destabilising, procyclical changes is **secondary** (...) to generating margin requirements sufficient to cover a CCP’s potential future exposure.” The micro-prudential mandate on ensuring a minimum level of regulatory required margin coverage is thus of higher priority than the macro-prudential mandate on limiting margin responsiveness. This is due to the fact that margin coverage ensures resilience of CCP, avoids loss-mutualisation and spill-over effects to the wider economy and society, and thus contributes positively to financial stability. In the reverse scenario, strict requirements on margin responsiveness can lead to insufficient margin coverage in crises which would be an undesirable outcome from a financial stability perspective.

Therefore, the element “margin costs” (or broader cost measure) is fully within the responsibility of CCP. The rationale to this is that it is a business decision element for CCP to balance between financial resources shifted between margins and the default fund while ensuring appropriate margin coverage and margin responsiveness. There is the underlying business trade-off between the “polluter pays principle” (if higher margin is applied) and “survivor pays principle” (if higher default fund is applied).

Furthermore, it should be the responsibility of the CCP to find the balance between the three factors “margin coverage”, “margin responsiveness” and “margin costs” within the trade-off framework, whereas minimum standards on margin coverage are met. In consequence, it should not be the role of regulator to take operational decisions within a CCP.

With respect to cases where regulators’ review of margin models would be beneficial, we would like to share the following three considerations:

- Regarding **margin coverage**, the regulator usually already monitors and checks compliance of a CCP with the minimum standards of margin coverage. If the respective CCP falls significantly below the minimum standards, the regulator can trigger a review of the model regarding margin coverage. If this is done ex ante, this would translate into a validation of the model design and model methodology to ensure that margin coverage is met by design. If this is done ex post, this translates into validation of the model performance for example via back-testing, which provides a measure on effective confidence level of initial margin model.
- Regarding **margin responsiveness**, following establishing effective transparency on margin responsiveness, the regulator can compare CCPs along a standardised measure on margin responsiveness. On this basis, the regulator can identify worst and best performing CCPs, and use these results to trigger a review of model regarding margin responsiveness. In the short-term, they can use the “large call metric” in combination with change in volatility at product-level and portfolio-level, and in the long-term, they can use in addition the proposed “peak-to-trough” (PT) measure, and “impulse response function” (see again our response to question 7 above for ease of reference).
- Regarding the **CCP’s role**, it is important to recall that the CCP constantly monitors and reviews its initial margin model, and ensures that minimum standards on margin coverage are always met, and balanced with margin responsiveness and costs.

9. *Proposal 9 recommends a number of enhancements to CM-to-client transparency.*

DBG welcomes improvements in the transparency of margin practices between Clearing Members and

clients. Margin transparency and margin responsiveness require a **holistic approach** that includes both: (i) transparency in the CCP-to-Clearing Member relationship **and** (ii) transparency in the Clearing Member-client link. Since the link between Clearing Member and client is quite different from the link CCP-to-Clearing Member, we believe that a higher level of transparency would be justified and beneficial.

It is particularly important that clients understand how and to what extent Clearing Members actions alter the margin responsiveness of CCPs vis-à-vis end-clients. While various aspects of Clearing Member-to-client transparency are covered, this crucial aspect is not addressed in Margin Group's proposal. In that context, Clearing Members shall ensure transparency to clients regarding Clearing Member-level margin add-ons or discretionary model overlays, and their effect on margin responsiveness for clients (compared to a full unchanged pass-through of CCP margins to clients).

Finally, the proposal should also consider other transparency perspectives:

1. Transparency from client to Clearing Members also needs to be addressed. The lack of transparency on the client-Clearing Member leg has in particular proven to be an issue in the Archegos case.
2. Transparency from Clearing Members to CCPs with respect to uncleared exposures of Clearing Members in similar products.
3. Tiering of transparency from the CCP to the different participants (Clearing Members, clients, regulators, general public) with their different transparency needs, as alluded to throughout our response.

a. Are there aspects of the proposal that would be particularly valuable for clients, and are there aspects of the proposal that would be particularly challenging for CMs to meet?

No comment

b. Do CMs currently provide any form of simulation tool, in addition to the tools provided by CCPs? For those who currently do not, what is the feasibility of CMs developing such tools? What functionality would be of most use to clients in CM-designed simulators?

No comment

c. On the proposed quantitative disclosure described in 9e), do you have supportive or alternate views on the information that should be provided and the format in which the information should be disclosed?

No comment

d. Do you agree that CMs should adopt an analytical framework for measuring the responsiveness of initial margin requirements for their clients, similar in nature to the proposed framework for CCPs described in Proposal 7? If so, in what ways might that framework need to differ from that used by CCPs, and in what ways might this depend on the type of CM covered?

No comment

e. Do you foresee any barriers or challenges to CMs implementing the proposed disclosures, such as cost, negative effects on risk management, or any potential overlap with traditionally proprietary information?

No comment

10. Please review the list of example CM-to-CCP disclosures provided at the end of Section 4.3.2.

In general, we believe that a certain degree of enhanced disclosure in the Clearing Member-to-CCP relationship is useful for:

1. enhancing operational efficiencies for risk assessments for participation requirements and participant monitoring;
2. better understanding of potential pro-cyclical effects of CCP model changes on margin responsiveness for Clearing Members and clients as part of conducting impact assessments (e.g., as part of model design choice regarding balancing trade-off between survivor pays versus defaulter pays approach).

However, enhanced disclosure should not lead to the knowledge of proprietary client information and a higher risk of destabilisation in extreme market events.

a. Would the information included in the proposed disclosures aid the CCP's own risk management processes? If not, is there alternative information which would be useful for CCPs to receive from members?

While the role of CCPs is to manage the default risks of Clearing Members, the role of Clearing Members is to manage the risk of a client default. If regulatory expectations go beyond this (e.g., the overarching goal of managing risk of hidden concentrations and leverage across the chain and across the cleared and uncleared space), then more consideration should be given to other more targeted disclosure solutions and who should provide or respectively receive more information (e.g., disclosures of Clearing Members related to their exposures in uncleared space or concentrations with their clients as mentioned in our response to question 9).

b. Is any of the information included in the proposal description either redundant or duplicative of information already available to the CCP, and thus of minimal value? Does any of the information included in the proposed disclosures differ by institution type?

No comment

c. Would collection of the information impinge upon current legal disclosure frameworks?

No comment

d. Do any of the example disclosures potentially overlap with traditionally proprietary information?

No comment