EURONEXT CLEARING

Introduction

Euronext Clearing (formerly, Cassa di Compensazione e Garanzia or CC&G) is a multi-asset clearing house part of the Euronext group that provides proven risk management capabilities on 14 markets, across a range of trading venues including Euronext Milan, MTS, BrokerTec and Hi-mtf. Asset classes cleared include equities, ETFs, Closed-end Funds, Financial Derivatives, Commodities (Agricultural & Energy) and Fixed income (Cash and Repos markets).

Euronext Clearing welcomes the opportunity to respond to the present consultative initiative concerning the review of margining practices during the COVID 19 market turmoil, issued jointly by BCBS, CPMI and IOSCO. In the below, the position of Euronext Clearing is provided in respect to the various questions entailed in the consultation.

Questions for consultation

1. Does the report accurately describe the key market events of the Covid-related period of stress from February to April 2020 and its effects on the magnitude and frequency of the calculation and payment of margin in centrally and non-centrally cleared markets? If not, in what ways are the descriptions not fully representative of the events? Are there any other important events or effects missing? If so, please provide any information or data that are relevant to the missing events or effects to the extent feasible.

Euronext Clearing considers the report exhaustive with regards to its purpose. A statistical analysis on the default rates/creditworthiness deterioration indicators, during Covid-related period of stress, might complement the findings of the paper.

2. Does the report draw appropriate conclusions from the presented observations and analysis of the various aspects of centrally and non-centrally cleared margin during the 2020 stress period? If not, in what cases do you feel the conclusions are not justified by the included analysis? Are there any areas or specific topics of analysis you consider to be missing? If so, please provide any information or data that are relevant to the extent feasible. Please set out your views across the following sections:

a. The drivers of margin calls during the period of market stress covered by the report.

Euronext Clearing considers this aspect well represented in the report.

b. The current level of transparency in margin practices by CCPs and intermediaries.

Euronext Clearing fully recognizes the importance to have as much as possible transparency in margin practices. However, there are some circumstances where full transparency may create undesired effects. For instance, the disclosure of ITD margin calls timings may create bad incentives in CCP participants in, for example, opening new

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positions just after the intraday margin call occurs, thus potentially bringing a voluntary uncovered risk to the system.
In addition, Euronext Clearing would like to highlight that the proposal made in the report to increase the transparency of CCP IM models, by including forward and backward-looking disclosures, should be matched with a clear representation of the sources of error that may affect any predictive measures and with the clear indication that backward-looking disclosures may not adequately represent future events especially when complex, non-linear events occur. This would prevent market participants from relying too much on such tools to calibrate their liquidity needs in stressed market conditions.

c. The preparedness of intermediaries and clients for meeting the increased margin calls seen during the period of market stress covered by the report.

No comments from Euronext Clearing.

d. The relationship between margin demands and other liquidity demands during the period February–April 2020.

No comments from Euronext Clearing.

3. Do you agree with the proposals for further international work regarding good practices, metrics and disclosures concerning procyclicality in CCP IM models? Are there other aspects of CCP IM where additional disclosures should be prioritised for further work?

Euronext Clearing agrees with the proposal and believes that a greater level of transparency on both core and add-on components of the IM models in the public documentation available on CCPs' websites should be encouraged.

4. Does the report identify appropriate aspects of transparency in centrally and non-centrally cleared markets for further international work, including identifying data gaps, enhancing disclosures to clearing members and increasing margin model transparency?

Euronext Clearing considers the report exhaustive with regards to the question.

a. What specific areas of transparency would be most helpful? What (if any) are the barriers to providing those points of transparency?

It is the opinion of Euronext Clearing that a greater level of transparency on CCPs' models and their input parameters could enhance the understanding and the comparison among different model behaviours, thus providing a benefit to the clearing members and the public.

c. Should any other areas of increased transparency be considered?

Euronext Clearing considers exhaustive the report in terms of the main areas of increased transparency considered.

5. Do you agree with the proposals for further international work to enhance liquidity preparedness in the NBFI sector, including the development of appropriate liquidity metrics and disclosures, analysis of liquidity provision robustness and expanded information sharing between intermediaries and clients? Have the proposals identified all key aspects of NBFI sector liquidity preparedness which should be included?

Euronext Clearing considers the proposals very helpful and does not have additional comments.

6. Do you agree with the proposals for further international work to evaluate data gaps in regulatory reporting by banks and non-banks? Are there particular data gaps you would identify as being of material importance? If so, please provide any supporting information and data to the extent feasible.

Euronext Clearing considers the proposals very helpful and does not have additional comments.

7. Does the report identify appropriate proposals for further international work on streamlining VM processes in centrally and non-centrally cleared markets? Should any other aspects of VM processes be included in this work?

CCPs have different practices when calculating and passing through intraday margin calls – some commonly hold ITD margin collateral through the day, passing the VM component back to members only during the next EoD cycle, while others "pass-through" some or all ITD VM payments from VM payers to VM receivers within the ITD cycle.

With regards to the proposal raised in the report to identify good practices for VM collection and distribution by CCPs, including the value of passing VM payments back into the marketplace on a timely basis whilst ensuring the availability of resources to meet obligations to clearing members, in our view it should be determined by the CCP in line with its risk appetite. Euronext Clearing notes that, during stressed periods (as during the Covid-19 crisis), usually, the market shows large up and down movements during the same day and this could imply that the payment of the intraday credit variation margins to the CCP Clearing Members could represent a high risk for the CCP depending on the moment of the calculation. As already highlighted, the disclosure of intraday VM calls timings may create undesired effects, thus bringing additional risks to the system.

8. Does the report identify appropriate proposals for further international work on the degree and nature of the responsiveness of CCP IM models to market stress? Should any other aspects of CCP margin models be included in this initiative?

Euronext Clearing considers the report exhaustive.

9. **Do you agree with the proposals in the report to evaluate the degree and nature of**

responsiveness of non-centrally cleared IM models to market stresses, remediation of IM shortfalls and the level of disclosure of non-centrally cleared IM model performance? Should any other aspects of non-centrally cleared IM models be included in this initiative?

No comments on Euronext Clearing side.

10. Are there any other important aspects not covered by the report which should also be prioritised for further international work or policy development?

Euronext Clearing considers the report exhaustive with regards to its purpose.