RESPONSE

Brussels, 16 April 2024

BCBS, CPMI and IOSCO CONSULTATIVE REPORT ON TRANSPARENCY AND RESPONSIVENESS OF INITIAL MARGIN IN CENTRALLY CLEARED MARKETS – REVIEW AND POLICY PROPOSALS

Questions for consultation

General questions

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 (eg where the costs may substantially exceed the benefits). Please provide an explanation to your answer.**

We strongly welcome the set of proposals which we believe is necessary to allow market participants to anticipate and be prepared for margin calls. We would like the transparency proposals to further address the following concerns:

- As some CCPs already provide for advanced tools and transparency, we would hope that those CCPs that still need to build such a framework can do so without passing on cost to clients

- Without stating the obvious, the simulation models that CCPs make available to clients, should be the same ones used by the CCPs when making actual margin requests, thereby helping clients be in a position to anticipate future margin calls with greater accuracy.

Finally, the elements in the IOSCO proposal which we most value are around the disclosure and description of APC tools, the additional breakdowns on margin-related data to come through the PQDs (public quantitative disclosures), and the push under proposal 6, to introduce a **standardised** measure of margin responsiveness.

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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?**

See our reply to Q1.

In addition, we would like to see 'ease of use' prioritised by the CCPs, through the use of appropriate interfaces with APIs. Though we stress that the use of APIs should not come at an additional cost.

The interfacing or interconnectedness between CCP simulation models and API's tools is critical for end-users, to optimize the anticipation of margin calls in case of potential derivative trades or open positions to be taken.

We would also have liked to see proposals in the current package addressing the 'dash for cash' phenomenon. We have previously [1] written about the procyclical impacts witnessed during the Covid crisis, when market participants rushed to liquidate assets to raise funds for margin calls. We believe that an expansion of eligible collateral, with appropriate haircuts, would mitigate against procyclicality pressures. High quality securities could be admitted as collateral for the payment of variation margin.

Finally, we believe that there is scope for sizing CCP IM requirements more conservatively while still preserving a careful balance between increased IM and managing volatility. This can be done using appropriate model assumptions to mitigate the potential for future procyclical initial margin moves. Existing margin models should be reviewed to ensure that the baseline methodology is sufficiently conservative thereby avoiding an overly reactive response to market volatility.

3. **Many of the proposals recommend that a market participant group (eg 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.**

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?**

[1] See EFAMA

Proposal-specific questions

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

There is lack of transparency in the market today where not all CCPs make margin simulation tools available to CMs and their clients. There is also a lack of consistency on the available information where the breakdown of margin requirements is not always provided, i.e core IM vs margin add-ons.

We believe that margin simulation tools should be made available to potential and existing customers.

These tools serve as a pre-trade tool, enabling market participants to understand the incremental impact on IM associated with potential portfolio changes. They also serve as a post-trade tool, enabling market participants to validate initial margin calculations which are provided by intermediaries.

The cost of interfacing with the CCP margin models should be kept at a minimum to favour use by all clients.

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

In terms of modes of access there is probably a trade-off between Graphical User Interface (GUI) which are web-based platforms and low-cost but offer less functionality, and API access models which have greater functionality, are more scalable but are also more costly.

A key issue when looking at API connectivity, is interoperatibility between CCP simulation tools to minimise costs for market participants. Ideally, market participants should be able to access all CCP models through a single connection. This would favour the use of APIs while limiting the associated costs.

b) Are there any impediments to making simulators available to clients? To what extent could these impediments be mitigated or resolved, eg 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 (eg the use of cloud technology, the use of APIs, etc)?

Simulation models should be accessible for free, and by existing *and* prospective clients. In addition, clear documentation and product-level margin data would facilitate comparison by clients as they operate different CCP simulators.

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? 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 expect that the baseline models to be provided by CCPs to clients should be those followed by the CCPs themselves when making margin calls .

The simulator tool suite could be further enhanced for market participants wishing to use a ‘what if’ functionality, which would allow the integration of participants’ own risk views. These customisable scenario calculations would allow market participants to upload scenarios based on risk factors/assumptions which they deem relevant to their unique investment thesis.

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

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

EFAMA is strongly supportive of Proposal 5 which improves PQDs through provisions for greater accuracy, timeliness and granular data.

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?

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?

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?

The Margin Group should require CCPs to publish back-testing results based on the margin responsiveness metric which is discussed in Proposal 6. Such a metric would provide a standard measure to allow market participants to assess model reactiveness across CCPs.

There would be value in including additional non-quantitative information in the PQDs related to margin changes. CCPs should provide information related to their risk appetite for APC. As noted in the Margin Group’s Phase 1 report, 40% of CCPs surveyed have established APC risk appetites which varied from

25%-80%. Market participants would benefit from understanding a CCP's risk appetite for APC given the wide range of potential outcomes.

Market participants would further benefit from insight into the impact which a CCP's APC tools have on current levels of initial margin. For example, market participants would benefit from understanding whether current margin levels are model driven or floor driven

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

We strongly support the addition of a margin responsiveness metric to the PQDs. Such a metric will provide transparency on a margin model's historical reactivity. A **standardised** metric would further facilitate comparability between CCPs.

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

a) Is the proposed method for measuring margin responsiveness (ie 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?

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.

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

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?

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?**

   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?**

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

   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?**

The Margin Group rightly considered the role of the CM in setting IM requirements for clients. We are supportive of section c of Proposal 9 which requires CMs to provide sufficient transparency and explanation of any additional margin charged to clients beyond CCP requirements. Furthermore, CMs should provide for sufficient notice periods for margin calls. Failure for CMs to provide sufficient notice could be harmful to the stability of financial markets.

   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?**

   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?**

   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?**

   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?**

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

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?**

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?**

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

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

ABOUT EFAMA

EFAMA is the voice of the European investment management industry, which manages around EUR 28.5 trillion of assets on behalf of its clients in Europe and around the world. We advocate for a regulatory environment that supports our industry's crucial role in steering capital towards investments for a sustainable future and providing long-term value for investors.

Besides fostering a Capital Markets Union, consumer empowerment and sustainable finance in Europe, we also support open and well-functioning global capital markets and engage with international standard setters and relevant third-country authorities. EFAMA is a primary source of industry statistical data and issues regular publications, including Market Insights and the authoritative EFAMA Fact Book.

More information is available at www.efama.org

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