Question 1: What are the considerations for a CCP's board when determining whether and how to assign tasks related to the planning and conduct of default management auctions within the CCP's risk management framework? How does the CCP's board identify potential limits to the assigned responsibilities?

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Questions 2: What different considerations may apply when a CCP's board establishes procedures for consulting external experts, such as independent consultants or clearing members, when designing or conducting a default management auction? How does a CCP's board address such concerns?

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Question 3: Do you agree with the description of a successful auction in the discussion paper? Do you agree with the scenarios identified that would constitute an unsuccessful auction, and are there additional such scenarios?

[Blank]

Question 4: What are the primary challenges in achieving a successful default auction? In addition to those included in the discussion paper, are there other elements in the design of an auction that a CCP could consider in order to increase the likelihood of a successful auction?

[Blank]

Question 5: Do you agree with the description of a successful auction in the discussion paper? Do you agree with the scenarios identified that would constitute an unsuccessful auction, and are there additional such scenarios?

[Blank]

Question 6: Do you agree with the description of a successful auction in the discussion paper? Do you agree with the scenarios identified that would constitute an unsuccessful auction, and are there additional such scenarios?

[Blank]

Question 7: In addition to those outlined in the discussion paper, are there other considerations that may be useful for a CCP to take into account when designing its hedging strategy, including circumstances where a CCP may wish to delay hedging?

[Blank]

Question 8: How do you incorporate cross-margining arrangement considerations in the hedging strategy and in the broader auction design process?

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Question 9: The discussion paper notes that, with respect to hedging, execution methods vary and depend on a CCP's choice of hedging instruments. What methods are used for hedging, and what is the rationale for implementing (or not implementing) a particular method?

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Question 10: What factors, other than those identified in the discussion paper, do you see as relevant when determining how to split a portfolio? Are there situations where certain factors would be more important than others? Please provide examples.

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Question 11: The discussion paper describes two common auction formats. Are there other auction formats not included that could be beneficial for a CCP to consider employing? What factors influence the decision to implement (or not implement) a particular auction format?

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Question 11. A: Besides promoting competitive bidding, are there other considerations for choosing two-way pricing? Are there circumstances where it would be beneficial or circumstances where it might not be appropriate? If so, please describe.

[Blank]

Question 11.B: What are the considerations for choosing to use a reserve price in an auction? Are there circumstances where it would be beneficial or circumstances where it might not be appropriate? If so, please describe.

[Blank]

Question 12: The discussion paper highlights two factors that affect the amount of time auction participants may need to evaluate a portfolio and submit bids. Are there other factors that are important to consider? Is there a minimum time period that a CCP should consider providing to auction participants?

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Question 13: If a clearing member contributes a "significant" part of the default fund, should that clearing member automatically be included in the auction process? What reasons are there for not including the clearing member?

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Question 14: The discussion paper discusses the trade-off between flexibility and predictability. How do you assess these trade-offs? Can you elaborate on the ways you provide for predictability while still maintaining flexibility (eg establishing rules and conditions to govern the determination of auction parameters)?

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Question 15: If a CCP uses juniorisation as an incentive to encourage competitive bidding, and in a scenario where the CCP has invited only a subset of participants to an auction, how will the CCP apply the juniorisation to the clearing participants who were not invited?

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Question 16: CCPs may distribute information that would help auction participants estimate the potential impact of a successful auction bid on their margin requirements. Besides those that members and clients would having during BAU, what information (and at what level of detail) or tools would be most useful for calculating these estimations and why?

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Question 17: The sharing of confidential information (ie the defaulted participant's portfolio) carries potential risks, as discussed in the paper. What are the potential risks associated with information leakages, how does the CCP balance such risks with other objectives (eg sharing sufficient information for a successful auction), and what are the measures the CCP uses to address such risks?

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Question 18: CCPs use various modes of information transmission during a default management auction (eg email, web-based portal). Can you elaborate on which modes are the most effective in which circumstances and whether it varies depending on the type of information, and why? Would you consider web-based portals a best practice? If so, why?

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Question 19: What are the challenges and trade-offs of creating a realistic default management testing exercise? What processes are used to create the scenarios used in such exercises?

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Question 20: There may be benefits in pursuing greater standardisation and harmonisation across CCPs in relation to certain operational elements which support execution of an auction.

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Question 20.A: For example, should auction portfolio files be in a standard (or partially standardised) format (for different product types)? If so, which aspects of the portfolio file would benefit the most from cross-CCP standardisation (eg file type, layout, order of information or content)?

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Question 20.B: Besides CCP portfolio files, which other operational elements would benefit (the most) from greater standardisation and harmonisation across CCPs?

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Question 20.C: Are there specific operational elements or areas where standardisation and harmonisation may not be helpful?

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Question 21: For which markets, asset or product classes and client types would client participation be most feasible and/or desirable? What would be the incentives for clients to participate in auctions? Does this differ for direct vs indirect client participation? Please elaborate in your response.

The FIA Principal Traders Group ("FIA PTG") appreciates the opportunity to respond to the client participation questions in the discussion paper. FIA PTG is an association of firms that trade their own capital primarily in the exchange-traded and cleared derivatives markets. FIA PTG members are generally not clearing members. FIA PTG members engage in manual, automated and hybrid methods of trading, and are active in a wide variety of asset classes, including equities, fixed income, foreign exchange and commodities. FIA PTG members are a critical source of liquidity in the markets in which we trade, enabling those who use these markets, including commercial end-users, to manage their business risks and to enter and exit the markets efficiently.

Client participation should be welcomed across all asset classes and products. Having a diverse set of qualified participants will result in more competitive bids and increase the odds of having a successful default auction. Often, clients are the primary liquidity suppliers in a particular asset class or product group. It is critical to include principal traders and other liquidity providers in a default auction, as they often have the capacity to price and absorb a large risk transfer. Experience with client participation in CCP default auctions has demonstrated that clients bid aggressively, reducing the overall cost of resolving the default.

All default auction participants, including clients, should be vetted and approved by the CCP, as well as the participant's applicable clearing member, in advance. Approval should include consideration of the following:

- Sufficient experience with the specific products to facilitate aggressive bidding and subsequent risk management should the participant be awarded the portfolio.
- Adequate operational expertise to facilitate analyzing the portfolio quickly and returning a competitive bid in the timeframe required during a default auction.
- Successful completion of CCP default management program (DMP) testing and drills.
- Execution of requisite CCP non-disclosure agreements.

FIA PTG does not believe there is any reason for clearing members other than the client's clearing member to approve a client's participation in a default auction.

We do believe that direct participation is the best method for bid submission in order to remove any potential conflicts of interest between the client and its clearing member, both of whom may be bidding in the auction. Once the client and its clearing member have agreed on the client's participation in the default auction and other variables – initial margin limits etc., there is no reason for the clearing member to see the actual bid amount. During the bidding process it is critical that bid amounts remain as confidential as possible, accordingly they should not pass through the clearing member.

Question 22: The discussion paper describes some ways to address the risks borne by a clearing member arising from its clients bidding in an auction. Are there additional ways to address the risks? Are there incentives that a CCP could employ to encourage client participation in an auction (eg ways to encourage clearing members to facilitate their clients' participation)?

FIA PTG agrees that it is important to minimize information leakage in the context of a CCP default auction. However, assertions that client participation will necessarily lead to a greater risk of information leakage compared to clearing member participation are unfounded. For these assertions to be true one would have to assume that clients are more likely to violate the strict confidentiality obligations imposed by CCPs and risk the resultant legal, regulatory, and reputational implications which could be quite material.

As we detailed above, we would expect that client default auction participants would be pre-approved by the CCP and their clearing member to participate in the auction. Accordingly, we expect that a clearing member that approved their client to participate in a specific default auction would have the necessary risk management expertise to handle any portfolio that would come from that auction.

Question 22.A: One option for addressing a disparity in incentives between clearing members and clients is to require clients to contribute an established amount to the default fund prior to participating in an auction. What are the implications of this requirement (such as regulatory, economic or contractual implications) and how can a CCP address these implications?

FIA PTG believes that for clients to participate in CCP default auctions they should not be required to contribute to the CCP default fund. Contributing to the default fund is one of the most significant costs associated with direct clearing membership. Imposing this requirement on clients would significantly impede client participation in auctions and is not necessary to ensure responsible client participation.

We strongly disagree with any suggestion that clearing member and client incentives are misaligned with respect to auction participation. Both risk incurring financial damage should a CCP fail or utilize other default management tools and both may enjoy the financial upside of successfully winning an auction portfolio in particular:

• Clients, like all CCP participants, have a strong interest in seeing the CCP remain solvent.
• Client incentives are perfectly aligned with clearing members in wanting to see a successful default auction at the lowest possible cost to the CCP given that an auction failure would likely result in the CCP utilizing other default management tools, which negatively impact all CCP participants.

Question 23: The discussion paper suggests that the conduct of multi-CCP default management exercises may provide useful insights into the hedging and auction procedures, should these be conducted by multiple CCPs concurrently. Can you elaborate on what specific insights could be obtained in relation to hedging and auctions via these multi-CCP default management exercises, if possible with concrete examples?

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Question 24: Feedback from the industry suggests that introducing a cap on the number of traders that can be seconded to multiple CCPs from a particular common clearing participant at any one time may mitigate the potential burden on clearing participants' participation in DMGs. How could such caps be instituted and implemented in practice? What could be the challenges of introducing such caps? Apart from caps, are there other options a CCP could consider to mitigate this potential burden?

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Question 25: Are there efficiencies or benefits to be gained from CCPs coordinating their respective default management auctions? If so, how?

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Question 25. A. Are there any arrangements that could be coordinated ex ante (eg cross-CCP netting arrangements)? How could these arrangements be established? What would be the challenges with these arrangements? How could these challenges be mitigated?

[Blank]

Question 26: Are there any additional points of consideration that would contribute to a successful auction that are not mentioned in this discussion paper? If so, what are they?

[Blank]

Question 27: What are the potential areas in the context of default management auctions where additional guidance might be most welcome?

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Any other comments/feedback on areas not mentioned above:

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