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DATE: **8 April 2024**

Ms. Shamila Kara
Divisional Head: Banking, Insurance and FMI Supervision Department
Prudential Authority
P.O. Box 427
Pretoria
0001

Dear Ms. Kara,

RE: JSE CLEAR COMMENTS ON THE BCBS-CPMI-IOSCO CONSULTATIVE REPORT ON TRANSPARENCY AND RESPONSIVENESS OF INITIAL MARGIN IN CENTRALLY CLEARED MARKETS

JSE Clear welcomes the opportunity to comment on the consultative report on transparency and responsiveness of initial margin in centrally cleared markets as published by the Basel Committee on Banking Supervision (BCBS), Committee on Payments and Market Infrastructures (CPMI) and the board of the International Organization of Securities Commissions (IOSCO), under the umbrella of the Joint Working Group on Margin (JWGM).

JSE Clear's responses to the questions posed by BCBS-CPMI-IOSCO on the transparency and responsiveness of initial margin are provided below.

Please let me know if clarification is required on any of the responses.

Yours faithfully,

Alex Comninos
CRO – JSE Clear

General questions:

Q1. 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.

While the additional disclosures would result in further transparency, it should be noted that CCPs already provide a high degree of transparency through publication of risk policies and methodologies, margin parameters, daily reporting to clearing members (CMs) and market participants and existing PQDs (Public Quantitative Disclosures). We believe that any requirements for additional or more frequent CCP disclosures should carefully consider the benefit that would be realised against the cost and overhead for CCPs to meet such requirements. The requirements under Proposal 5 are very onerous, with unclear benefit and may draw resource attention and capacity away from what should be the primary activities of the clearing house i.e. managing day-to-day risk in the markets and progressing strategic and clearing/risk management improvement initiatives.

Regarding the mitigation of destabilising changes in margin requirements, we note that most CCPs already apply effective APM (anti-procyclicality measures) in their margin methodologies. While we appreciate the intention underlying the proposed introduction of a standardised and relatively simple and practical measure of margin responsiveness, we assert that there are significant challenges with this which we outline in our feedback on Proposal 6 (see response to Question 7 below).

Proposals 9 and 10 are particularly beneficial as they will improve transparency in areas which have not received significant focus to date. JSE Clear supports the Proposal 9 requirements for CMs to ensure their clients have sufficient understanding of their margin requirements and practices including any additional margin levied by the CM on top of the margin levied by the CCP. We believe this will also enhance trust between stakeholders (CCPs, CMs, Trading Members (TMs) and clients). Proposal 10 provides for increased transparency from CMs to CCPs which is very important for CCP risk management. Additional information such as CMs' OTC exposures can be helpful for the CCPs in managing risk. Overall, the increased transparency and information-sharing between CCPs and CMs will facilitate better risk assessment, monitoring, and mitigation within the CCP ecosystem, ultimately contributing to the overall stability and resilience of the financial system.

Q2. 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 have not identified any aspects of margining practices that have not been adequately covered.

Q3. 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.

The consideration of proportionality in regulatory requirements is important when proposing new or enhanced practices. Consideration should be given to the cost vs. benefit of adopting enhanced disclosures or new practices. The complexities and resource requirements involved in building simulators, for example, are significant and some CCPs may find it challenging and expensive to build sophisticated simulators catering for all asset classes and products without impacting the cost of clearing.

Q4. 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?

No direct negative impacts identified.

Specific Questions

Q5. Proposals 1 and 2 recommend that margin simulation tools be made available by all CCPs to all CMs and clients, with enhanced functionality.

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

CCPs typically offer simulation tools through various channels such as public websites and APIs, adapting to client demand, usage trends and technology developments. CCPs should have the flexibility to decide on the availability of simulation tools for CMs and market participants based on the clearing services they offer and relative cost effectiveness of different access mechanisms.

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)?

Costs of building simulators versus the benefit derived from them should be considered by each CCP. Smaller CCPs may not have the required resources to build simulators and a low number of participants may utilise them. CCPs should be able to base decisions on whether to build or enhance simulators on cost-benefit analyses, which may include consideration of charging for value-added services (i.e. additional functionality over and above that provided in the 'base' simulator).

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?

Accommodating the CCP's current set of historical and hypothetical stress testing scenarios in margin simulator tools allows CCPs to leverage existing margining functionality and is deemed relatively practical and achievable. Accommodating custom hypothetical scenarios definable by users, would increase the sophistication of simulator functionality and the potential development costs for CCPs may outweigh the benefits, particularly if only a few clearing members and participants utilise such capabilities. Leveraging hypothetical scenarios from the CCP's own scenario set, while recognising the proprietary nature of its methodologies, could strike a balance between providing informative simulation tools and managing implementation costs.

Consideration should be given to what services/functionality CCPs should be obliged to provide and what services/functionality market participants are able to cater for tailored to their own needs, making use of the information provided by CCPs (e.g. margin methodologies and margin parameters) in support of this.

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?

Add-ons may not be challenging to include at portfolio level hence they can be incorporated in a standard simulation tool. We still emphasize that a cost-benefit analysis should be done for any additional functionalities to be included e.g. catering for contracts not currently traded and cleared (which may present challenges from a valuation and margining perspective).

Q6. 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?**

JSE Clear considers the current reporting frequency to be appropriate and sufficient to support market participants understanding of the margin system. The disclosure requirements outlined in Table 5 would constitute a very onerous reporting overhead on CCPs with an unclear incremental benefit to market participants. The additional breakdowns and increased frequency of reporting would draw resource attention and capacity away from the primary activities of the clearing house i.e. management of day-day risk in the markets and progressing of strategic and clearing model improvement initiatives).

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?**

See concerns described above. Some of the additional data breakdowns may allow participants to deduce sensitive information such as position concentrations, especially in markets where exposures are concentrated across a relatively limited number of products.

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?**

JSE Clear has not identified any disclosure requirements on top of the existing PQDs, those described in Table 5 and the information already provided by most CCPs (e.g. margin methodologies and margin parameters), that would help participants to better understand or anticipate margin requirements. We also reiterate that measures of past margin responsiveness cannot be used to predict future margin requirements and liquidity needs.

It is also important to highlight the willingness of market participants to utilise available data for anticipating changes in margin requirements. Many clients do not make use of existing PQD information and simulation tools for cleared margin calculations. Therefore, rather than focusing solely on adding more information to PQDs, we suggest that encouraging wider utilisation of existing information and tools by market participants may have a more significant impact on outcomes for end-users.

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 are not aware of any current public disclosures by CCPs which can be used as a guide.

Q7. 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 (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?**

While we appreciate the intention underlying the proposed introduction of a standardised and relatively simple and practical measure of margin responsiveness to assist participants in liquidity planning, we believe that the proposed measure does not achieve this objective and that there are significant challenges with introducing such a measure:

- Any standardised measure will not recognise the differences in CCP environments, service and product offerings and risk management approaches e.g. margin methodologies.
- While a level of simplification is necessary to ensure any measure introduced is practical and understandable to market participants, an oversimplified measure will not give sufficient information about the drivers of margin changes (which in addition to volatility include other key factors such as price level changes). If not accompanied by additional qualitative and quantitative information, the measure may be misinterpreted and in fact misleading.
- Last but not least, even if some of the above challenges are overcome, any measure of past responsiveness may not assist market participants in predicting future liquidity needs.

Having outlined the challenges associated with the introduction of any margin responsiveness measure, if a margin responsiveness measure is to be introduced as part of the PQDs, JSE Clear would be supportive of a measure which discloses percentage margin changes at the aggregate level coupled with margin rate changes on key contracts, to provide insight into the drivers of the margin changes.

Alternative responsiveness measure proposed:

a) the average and maximum 1-day percentage changes in total (aggregate) initial margin required over 3 and 12 month periods, coupled with:
    - Margin rate and VaR changes for the top 5 instruments by exposure

Recognising that during recent market stress periods (e.g., Covid-19, Russia-Ukraine) increases in variation margin were a key component of participants' liquidity needs, the following additional measure is proposed:

b) a ratio of the 1-day Dollar change in total initial margin required compared to variation margin.

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.**

As expressed above, JSE Clear has concerns with the introduction of any margin responsiveness measure due to the challenges highlighted. If a measure is to be introduced JSE Clear would be more supportive of a higher-level measure of responsiveness as described in a) above.

Having said this, if the proposed "Large call metric" is to be adopted, JSE Clear's view on the parameters settings is as follows:

i. 1 day for the large call window, considering the focus on sudden increases in margin requirements that may increase liquidity pressures during stressed markets.

ii. 1 year for the observation period. This is important to markets/products impacted by certain cycles such as commodities. Having said this, shorter observation periods such as one quarter would also be fine, as reporting for consecutive quarters can be reviewed to assess responsiveness metric results over longer periods.

iii. Disclosure at the product level (with a focus on key products cleared by the CCP in terms of exposure or value cleared) is the preferred choice. While the static or dynamic portfolio approach may be beneficial as they would factor margin offsets, disclosure at this level would come with increased complexity (e.g. the impact of changes in portfolio composition overtime for dynamic portfolios) and computational cost for CCPs.

iv. For the volatility risk metric, we prefer VaR given JSEC's margin methodology is based on a VaR approach which is well understood and widely used by CMs and market participants. We however note and acknowledge that CCPs who do not utilise a VaR based margining models there may be more suitable preferences. This highlights the concern regarding imposing standardised measures.

v. The preferred volatility risk metric lookback period is two years.

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

For market volatility, if the standard deviation is selected as the risk metric, whether equally weighted or EWMA standard deviation is used should also be disclosed. No other parameters identified.

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?

See above. There will be significant challenges in correctly interpreting, assessing and comparing the responsiveness of different CCP models, and particularly those not aligned to the chosen volatility metric.

Q8. 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?**

JSE Clear agrees that margin coverage, responsiveness and cost are the most important considerations when evaluating the performance of initial 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? [TBD]**

JSE Clear's view is that regulators' key focus should be on margin coverage and ensuring that the CCP's models are designed in accordance with regulatory requirements to ensure the sufficiency of margins and appropriately mitigate the risk of mutualisation of losses. The framework may also assist regulators in assessing the CCP's margin model responsiveness in context of the primary need to ensure margin coverage and mitigate against counterparty credit risk in the interests of financial stability.

Q9. 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?**

JSE Clear strongly supports the proposals to increase CM-client-transparency. Ensuring that clients have an understanding of their CM's margin requirements and practices including any margin add-ons or additional margin requirements that the CM imposes on top of the CCP's margin requirements is very important.

We do not think that there are any aspects of the proposal that would be challenging or overly onerous for CMs to meet.

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?**

JSE Clear is not aware of margin simulation tools provided by CMs to their clients. Functionality that would be of most use to clients would be the ability to simulate any margin requirements that CM's levy on their clients, in addition to the margin requirements of the CCP.

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?**

JSE Clear would be supportive of disclosure of backward-looking data detailing the maximum, minimum, and average differences between client margin requirements established by the CM and those imposed by the CCP over a specified timeframe.

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?**

Yes, JSE Clear agrees that CMs should adopt such a framework. Historically, this area hasn't received adequate attention and increased transparency would be of significant benefit.

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?**

Costs associated should not be prohibitive. The implementation of the proposed disclosures is expected to have positive effects on risk management. To avoid sharing of any proprietary or confidential information, consideration could be given to CMs sharing certain disclosures with their clients directly.

Q10. 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?**

Additional information regarding the CMs OTC positions can be helpful for the CCPs to fully understand the risk of their CMs. Overall, the increased transparency and information-sharing between CCPs and CMs will facilitate improved risk assessment, monitoring, and mitigation within the CCP ecosystem, ultimately contributing to the overall stability and resilience of the financial system.

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?**

JSE Clear has not identified information included in the proposal description that is either redundant or duplicative information already available to the CCP.

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.