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?

The board should establish a risk management framework, rules and responsibilities to provide the effectiveness of the overall default management process. The board should be informed of material developments related to default management auctions, including design elements and results from default management fire-drills. The board should understand the impact to the CCP and to the market in case of default auctions and further CCP's action steps.

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?

CCP should seek advice from consultative bodies and broad range of market participants to get recommendations on auction mechanism and auction process. CCP must be sure consulting experts have enough product specific market knowledge. It could crucial for difficult, exotic or customized products. CCP should address conflict of interests and lack of best efforts.

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?

NCC agrees with the description of a successful auction as well as with the scenarios identified that would constitute an unsuccessful auction.

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?

Key challenges:
- Decision on whether to hedge or not to hedge, when and what to hedge;
- Portfolio splitting;
- Selection of auction participants;
- Regular fire-drills;
- Incentives to bid competitively and its sufficiency

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?

Taking into consideration answer to the 1st question CCPs should maintain robust governance arrangements over entire default auction. The board could use a number of parameters and indicators and its thresholds to delegate the decision or to make its own decision about auction successfulness.

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?

If a defaulter's portfolio consists of liquid, exchange traded and small sized instruments or if it's possible to replicate portfolio with such instruments, the best approach for establishing matched book will be to enter close-out orders using exchange. If the cross-margining is applied to defaulter's portfolio then the portfolio should be split by such liquidation groups (groups of instruments with similar risk characteristics).

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?

CCP should design its own order of the hedging. For instance, CCP hedges spot risk primarily, then interest risk, etc. CCP should choose whether hedging instruments are acceptable to use and not. Such acceptable instruments should be approved by the board.
When deciding whether to hedge immediately, CCP also should consider:
• the amount of time which will take hedging process and compare it with the amount of time needed for the liquidation auction to be organized.
• the liquidity of the market where hedging is executed (if the market is illiquid, it's likely to get biased prices for hedging instruments)

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

Correlations of underlying risk factors are considered in the hedging strategy and auction portfolio composition. It's possible to split portfolio in disregard of risk offsetting only if such positions will be closed in the same time (or small time lag).

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?

CCP could execute hedging auction or direct offer approach to execute hedging trades for OTC market. CCP should use liquid and transparent instruments for the hedging.

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.

CCP's decision should be made in accordance with hedge conditions. If portfolio is hedged quite well the only option to consider would be the portfolio size and its liquidity when split (as long as the hedge is kept). One more option is splitting portfolio by risk factors if it improves liquidity and risk profile.

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.

It might be beneficial if a large number of participants take part in default auction and instruments are standardized. In this case, CCP can avoid information leakage and have more competitive bids. On the flip side it will take longer to evaluate portfolio and it makes no sense when the auction participants number is limited.

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.

CCP could misjudge current market conditions and set wrong reserve price. Also it gives insight into CCPs ability to absorb losses (it could lead to non-marketable bids). On the other hand reserve price can help to protect CCP's skin in the game.

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?

CCP should minimize time needed to hold an auction. A coordinated communication process should be established between auction participants and CCP in order to evaluate the portfolio in a timely manner. Moreover, market participants should also have a well-organized structure of the internal approval process.

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?

All participants are allowed to participate in default auction. The main condition would be having sufficient collateral to meet new margin requirements. If default auction is held among limited number of participants the board should establish a number of top "significant" default fund contributors whose participation is compulsory.

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)?

Auction process should be clearly defined and approved by market participants. Routine fire drills should be held. Flexibility could be achieved by fine adjustment of some action settings (with DMG consultation).

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?

There are no reasons for applying juniorisation without giving an opportunity to participate in auction.

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?

CCP should establish a convenient way of distributing auction portfolio (like API channels and what-if analysis in a trading system).

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?

Where could be cases when CCP will be cornered with uncompetitive bids. CCP aim to reduce market sensitive information. Supervisory authority should regulate divulgation and using of sensitive information in order to avoid manipulation by auction participants.

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?

CCP could use all available options to inform auction participants (e-mail, phone calls) including the specially designed system in which the auction will take place.

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?

The data used in realistic default management testing exercise may significantly differ from possible real-world data and may not account for stressed market conditions. For example, the auction quotes received from participants in stress conditions are hard to forecast. The target scenario is to test every possible aspect which is too time-consuming and requires much effort from participants. The CCP's incentive is to maintain balance between the desired level of sophistication and realism/easiness to implement of testing procedure.

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.

We believe that a higher level of transparency and better understanding of processes may be achieved by greater standardization and harmonization across CCPs. CPMI and IOSCO can help this by introducing standardized and still customizable auction mechanisms.

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)?

We believe that auction formats should be standardized across CCPs in machine readable form. Additionally, these formats should take into consideration different product types

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

We believe that standardization of price related data on product-specific level will be helpful. This requires regulatory involvement and can greatly reduce timeframes in stress conditions

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

A common issue is timeframe inconsistencies within default management procedures across CCPs which cannot be fully aligned by standardization and harmonization. This concerns the pre-auction analysis timeframes and some predefined timelines

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.

Client participation can be recognized with respect to better bidding of illiquid assets. Also, this requires clients to make additional collateral postings. The target approach here is to establish communication between a managing company and its' clients. In this case the managing company can act like an intermediary between the CCP and a client. The main issues here are increasing timeframes and possible legal obstacles

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)?

We believe that clearing participants should be responsible for their clients. Orders should be transferred only after preliminary approve by a clearing participant. A participant should grant its' obligations to fulfill client's order and should grant that it has proper risk-management procedures in place

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?

Requiring clients to contribute to the default fund will have a negative impact. Firstly, it will stop some clients from participating in auction. Secondly, it will lead to double counting as client's exposures are already taken into account

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?

Comments are not applicable. Though we believe that such a collaboration may be helpful someway

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?

Implementing an arbitrary cap on the number of traders that a CCP can second seems not to be efficient way to mitigate operational burden during default management procedures. The reason is that the number of required traders is dependent on the size and the range of affected CCP's markets. The possible solution is to work more tightly with clearing members (especially with those who get requests from more than 1 CCP) in order to form efficient default management groups and avoid conflicts and over-utilizations

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

The positive affect may appear when CCPs firstly take cross-correlated portfolios and then concentrated portfolios to the auction. This can help avoiding liquidity drain.

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?

NCC acts at a local scale primarily so the question is not applicable.

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?

The discussion paper does not mention the margining procedure, check for collateral sufficiency and setting tariffs for participants (should the CCP stimulate participants with discount/zero tariffs or not)

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

The misuse of insider information can be described at the regulatory level in more detail. This will allow to avoid lacks of best efforts more efficiently.

Any other comments/feedback on areas not mentioned above:

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