



asset management group

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CPMI Secretariat
cpmi@bis.org

IOSCO Secretariat
CCP-SST@iosco.org

Re: Discussion Paper on Client Clearing: Access and Portability (the “Discussion Paper”) by the Committee on Payments and Market Infrastructures (“CPMI”) and the Board of the International Organization of Securities Commissions (“IOSCO”)

Dear Secretariats:

The Asset Management Group of the Securities Industry and Financial Markets Association (“**SIFMA AMG**” or “**AMG**”)¹ appreciates the important work of CPMI and IOSCO (collectively, the “**Supervisory Authorities**”) in assessing issues related to developing models for client clearing and the potential benefits, risks, and challenges associated with each model - with a focus on the porting of positions should the clearing access sponsor (“**CCSP**”) fail. Especially as the Supervisory Authorities are considering potential enhancements to aspects of the existing clearing model, SIFMA AMG also appreciates this work to identify issues related to emerging practices so as to enhance the resiliency of central counterparties (“**CCPs**”), clearing members (“**Intermediaries**”) and the overall market for participants (“**clients**”).

Overwhelmingly, SIFMA AMG members have embraced the transition of the over-the-counter market to clearing. Our members have been consistent, engaged supporters of the global mandates for the central clearing of standardized derivatives, and have worked closely with global regulators, with CCPs, and with CCSPs to enhance the regulatory framework for central clearing so that it is a resilient structure to facilitate healthy, growing cleared markets. SIFMA AMG has long advocated for a globally harmonious, risk-appropriate, and efficient ruleset targeting improvements with respect to CCP capital, transparency and governance, and margin.

¹ SIFMA AMG brings the asset management community together to provide views on policy matters and to create industry best practices. SIFMA AMG’s members represent U.S. and multinational asset management firms whose combined global assets under management exceed \$45 trillion. The clients of SIFMA AMG member firms include, among others, tens of millions of individual investors, registered investment companies, endowments, public and private pension funds, UCITS and private funds such as hedge funds and private equity funds.

Our members applaud the CPMI-IOSCO Steering Group in directing the Policy Steering Group (“**PSG**”) to:

- (1) develop knowledge and understanding regarding new access models;
- (2) develop knowledge and understanding of current porting processes in place at CCPs;
- (3) consider possible approaches to facilitate access and portability arrangements; and
- (4) consider the potential benefits, risks, and challenges that new access models and potential solutions may bring with respect to access.

We note the Discussion Paper leverages information gained through an industry workshop in July 2019 and a survey addressed to CCPs, CCSPs and clients in late 2019. We have found that this data-driven approach to regulatory analysis is best-designed to produce informed policy-making and avoid the risk of unintended consequences. SIFMA AMG commits to engage closely with the Supervisory Authorities as this effort progresses.

In this letter, we will express general observations about the use of various access models by our members and the perceived benefits and opportunities presented thereby. We will also provide observations as to the suggested next steps recommended by the PSG for consideration by the CCPs, CCSPs, and clients.

I. General Observations:

SIFMA AMG members primarily engage in futures, options, and derivatives with a CCP through the services of a CCSP such as a futures commission merchant (“**FCM**”) or a derivatives clearing organization (“**DCO**”). The mandated transition to the clearing of certain derivatives, together with the voluntary clearing of other products, has produced efficiencies for our members and for the market generally. And it is for this reason that our members have remained fully committed to secure enhancements to the ruleset associated with clearing to reduce certain risks presented by clearing and to better ensure the resiliency of cleared markets for the future.

A small but growing percentage of our members have begun to clear repurchase agreements (“**Repos**”) through a sponsor CCSP (“**Sponsored Access**”). Members report potential benefits include enhanced netting, better pricing, and deeper liquidity, however there are also perceived challenges including operational complexities, and credit and other risks, not present in the more traditional non-cleared Repo market.

At this point it is unclear whether any SIFMA AMG member clears any trades directly with a CCP without the involvement of a CCSP (“**Direct Access**”). As noted in the Discussion Paper, the reasons for this include legal, regulatory, credit, and operational challenges or prohibitions. For these reasons, it seems unlikely that the Direct Access model will soon present opportunities for our members.

It is important to note that we believe the proper motivation for CPMI-IOSCO in assessing this area is to consider how the growth of alternative access models could enhance or negatively impact

the stability and resiliency of clearing generally. In addition to increased costs to clients, CPMI-IOSCO should consider whether alternative access models present challenges to CCSPs in terms of credit and other risks that could cause the ever-shrinking community of CCSPs to become even more concentrated. Likewise, consideration should be given to whether CCPs have a well-conceived and tested playbook to manage the failure of a CCSP in the context of the book of cleared business introduced by each sponsored client. In addition, focus should be applied on the volatility, liquidity, and overall market implications if a sponsored client failed across multiple CCSPs and/or CCPs.

II. Sponsored Access:

SIFMA AMG members report that Sponsored Access clearing for Repos can be beneficial while some of the associated risks can be minimized largely due to the short-dated nature of Repo trading. Nevertheless, compared to traditional bilateral Repo trading, which involves basic market-standard documentation and simplified margin and default terms, Sponsored Access Repo clearing requires an in-depth understanding of the more complex model, together with an operational lift that can take up to a year to complete.

In the context of managed funds, in Sponsored Access, the asset manager effectively faces a two-step clearing process. Documentation must be completed with both the Sponsored Access CCSP, which approves clearing at the block or bunched-order level, and the ultimate CCSP, which approves clearing at the allocated fund level. Documentation, operational connectivity, and credit approvals are required at each level.

The legal and operational complexities of Sponsored Access are difficult to digest, and there are increased costs, the need for contingent guarantees, challenges presented by captive execution, and risks associated with a failure of the CCP and/or CCSP. And although some members may view some of the risks to be mitigated by the short-dated nature of Repos, our members are gratified CPMI-IOSCO has focused resources in this area to identify the merit of enhancements generally.

III. Direct Access:

As noted above, it does not appear any SIFMA AMG members currently clear directly with their CCP. Legal, regulatory, and operational issues would require significant development for asset managers and funds to engage in Direct Access clearing with CCPs. And, as noted above, such changes would require careful assessment as to the implications for asset managers and fund investors, as well as how such developments could affect risk within cleared markets.

IV. Porting:

CPMI-IOSCO is right in focusing on porting as it is the preferred tool for use by clients in the event of the failure of a CCSP. SIFMA AMG members often establish clearing relationships with multiple FCMs and DCOs so that in the event one fails, trades can be efficiently ported without breakage. Absent such a back-up CCSP, clients could find porting extraordinarily difficult, with unwanted trade tear-ups being a distinct option.

In the Sponsored Access space, the challenges in arranging for multiple CCSP sponsors increase significantly. And while Sponsored Access Repo clearing may present less of a risk given the short-dated nature of most Repos, for Sponsored Access to expand more deeply into Repos, or beyond Repos into other products, the ability to efficiently port to a back-up CCSP becomes even more critical.

V. Recommended Next Steps:

SIFMA AMG finds the list of seven areas for further work to be very helpful as CPMI-IOSCO move ahead. And while the seven areas are drafted as suggestions, we view each to be a critical next step for the industry. Particularly as the Supervisory Authorities are focused on addressing the risks presented by clearing generally, we believe each of these areas must be addressed both to better protect existing Sponsored Access clearing but to also establish a strong foundation for future growth. While we agree a degree of flexibility in approach is appropriate to address different products and markets, as well as different jurisdictional requirements, we believe a high degree of standardization of principles and foundational requirements is best suited to apply to the global cleared markets. We will address each recommendation in turn:

1. **Secure Alternate CCSPs:** It is in the interest of CCPs, CCSPs, and clients to require the establishment of alternate CCSPs to mitigate the risk of the failure of the primary CCSP. Non-credit-related challenges in onboarding CCSPs, whether the primary or an alternate, should be targeted so that clients are not hampered inappropriately in arranging for such an important risk-mitigation tool. Absent efficient porting, we are concerned about market volatility and liquidity should a forced tear-up of positions be required.
2. **Game plans:** It is critical that CCPs have a robust playbook for porting cleared positions upon the failure of a CCSP. It is altogether appropriate that such playbook should take into consideration market differences, insolvency regimes, and investor protection frameworks to facilitate the optimal porting outcome.
3. **Client consent:** The unique relationship between the CCP and the client in Sponsored Access models suggests that there may be merit in exploring opportunities to further clarify transparency and authorization should a CCSP fail. For clients not involved in Sponsored Access, such practices are less compelling.
4. **Communication and coordination:** As noted above, the Sponsored Access models could be enhanced through greater clarity in the relationship between the CCP and the client. Especially in the event of a CCSP failure, each of the CCP and the client need transparency so that unexpected developments can be avoided. We applaud the highlighting of this need and look forward to working with CPMI-IOSCO in developing appropriate approaches and protocols.
5. **Harmonization:** As noted above, rulesets must reflect the flexibility required to address different products and markets as well as jurisdictional requirements, however, to the extent possible, automation and standardization should be required so that clients, and markets, know what to expect in the event of the failure of a CCSP.

6. **Testing:** SIFMA AMG strongly believes in the need not only for robust rules and clear playbooks, but that the practices implemented be tested for efficiency and soundness. The PSG has identified the right areas for focus and we will look forward to joining efforts to craft the appropriate testing scenarios.
7. **Transparency for clients:** SIFMA AMG has long advocated for significantly greater transparency and enhanced governance from CCPs. In the limited area of disclosure of porting risks, we agree whole-heartedly with the recommendation. And we believe greater transparency has at least two purposes with the first being a better-informed client. The second is to encourage better practices in the areas of focus for the disclosure. Both purposes are worthy of support.

SIFMA AMG appreciates the important work of CPMI and IOSCO in assessing issues related to developing models for client clearing and the potential benefits, risks, and challenges associated with each model. In addition to ongoing work to enhance rulesets for clearing generally, we also appreciate this work to identify issues related to emerging practices so as to enhance the resiliency of CCPs, CCSPs, and clients.

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We look forward to participating in future discussions on the topic of alternative access to clearing and relating porting issues and we look forward to discussing these comments. Should you have any questions, please contact Lindsey Keljo at 202-962-7312 or lkkeljo@sifma.org, or William Thum at 202-962-7381 or bthum@sifma.org.

Respectfully submitted,



Lindsey Keljo, Esq.
Asset Management Group – Acting Head



William Thum, Esq.
Asset Management Group – Managing
Director and Associate General Counsel