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SUBJECT: BCBS-CPMI-IOSCO consultative report on "Review of margining practices"

DATE: 26 January 2022

QUESTIONS FOR CONSULTATION

1. Does the report accurately describe the key market events of the Covid-related period of stress from February to April 2020 and its effects on the magnitude and frequency of the calculation and payment of margin in centrally and non-centrally cleared markets? If not, in what ways are the descriptions not fully representative of the events? Are there any other important events or effects missing? If so, please provide any information or data that are relevant to the missing events or effects to the extent feasible

TD Response – TD experienced similar results as described in the report. The SIMM was not procyclical and margin calls related to bilateral variation margin (VM) and CCP initial margin (IM) increased. All collateral calls were met for both bilateral and CCP agreements. During the stress period, TD posted more collateral to CCPs, however the composition of collateral did not change. To our knowledge, CCPs provide tools to predict the expected IM from a new trade, however tools do not exist for assessing IM changes related to expected market volatility. We recommend that all CCPs provide tools to calculate IM under different stress and market volatility scenarios.

2. Does the report draw appropriate conclusions from the presented observations and analysis of the various aspects of centrally and non-centrally cleared margin during the 2020 stress period? If not, in what cases do you feel the conclusions are not justified by the included analysis? Are there any areas or specific topics of analysis you consider to be missing? If so, please provide any information or data that are relevant to the extent feasible. Please set out your views across the following sections:

a. The drivers of margin calls during the period of market stress covered by the report.
b. The current level of transparency in margin practices by CCPs and intermediaries.
c. The preparedness of intermediaries and clients for meeting the increased margin calls seen during the period of market stress covered by the report.
d. The relationship between margin demands and other liquidity demands during the period February–April 2020.

TD Response –

a. The main driver of VM calls during the stress period were equity derivatives. We found that the margin call exposure was strongly correlated with the VIX index during the stress period.
b. We agree that the level of transparency can be improved for CCP IM, and that CCP IM should not behave in such a procyclical manner. In additions, CCP tools should be available that provide the ability to predict IM under different stress scenarios.
c. Acadia is a highly used tool and it greatly facilitated the higher volume of margin calls during the stress period for OTC derivatives. We recommend more market participants to utilize Acadia.

d. Other than margin collateral, other notable drivers impacting liquidity during this period were draws committed and uncommitted facilities, reduced access to medium/6-12m term funding (more near term), and requests to buy back short-term paper.

3. Do you agree with the proposals for further international work regarding good practices, metrics and disclosures concerning procyclicality in CCP IM models? Are there other aspects of CCP IM where additional disclosures should be prioritised for further work?

<u>TD Response</u> – TD agrees that there should either be more work around the procyclicality for CCP IM, and CCPs should provide better tools for members to conduct scenario analysis and its impact to IM under different macro (i.e. volatility) and firm-specific stress conditions.

4. Does the report identify appropriate aspects of transparency in centrally and non-centrally cleared markets for further international work, including identifying data gaps, enhancing disclosures to clearing members and increasing margin model transparency?

a. What specific areas of transparency would be most helpful? What (if any) are the barriers to providing those points of transparency?
b. Should any other areas of increased transparency be considered?

<u>TD Response</u> –

a. Areas of transparency noted in the paper regarding the drivers of CCP margin models, and how they will evolve during stress, would be helpful to inform internal bank decisions on liquidity reserve management. There is currently little-to-no guidance on how CCP IM requirements will change under a broad market stress, or rating downgrades.
b. No additional points to note from what was already mentioned above – i.e. better tools and more transparency on how the CCP models will change under stress scenarios.

5. Do you agree with the proposals for further international work to enhance liquidity preparedness in the NBFI sector, including the development of appropriate liquidity metrics and disclosures, analysis of liquidity provision robustness and expanded information sharing between intermediaries and clients? Have the proposals identified all key aspects of NBFI sector liquidity preparedness which should be included?

<u>TD Response</u> – N/A

6. Do you agree with the proposals for further international work to evaluate data gaps in regulatory reporting by banks and non-banks? Are there particular data gaps you would identify as being of material importance? If so, please provide any supporting information and data to the extent feasible.

<u>TD Response</u> – N/A

7. Does the report identify appropriate proposals for further international work on streamlining VM processes in centrally and non-centrally cleared markets? Should any other aspects of VM processes be included in this work?

<u>TD Response</u> – There is an opportunity to improve workflow by increasing the adoption of Acadia. Acadia is commonly used by non-centrally cleared members, but not by CCPs or in the repo space. We feel the bilateral OTC derivatives process is streamlined with wide adoption of industry utilities such as Acadia and TriResolve.

8. Does the report identify appropriate proposals for further international work on the degree and nature of the responsiveness of CCP IM models to market stress? Should any other aspects of CCP margin models be included in this initiative?

TD Response – Overall the regulators should consider enforcing minimum standards and oversight directly on CCPs. We agree with the recommendation of a supervisory assessment on model attributes, but also, minimum standards should be established on tools/reporting made available for clearing members by the CCPs that provide expected outcomes under standardized stress scenarios.

9. Do you agree with the proposals in the report to evaluate the degree and nature of responsiveness of non-centrally cleared IM models to market stresses, remediation of IM shortfalls and the level of disclosure of non-centrally cleared IM model performance? Should any other aspects of non-centrally cleared IM models be included in this initiative?

TD Response – SIMM governance is working as expected. There are mechanisms in place to monitor model performance daily through backtesting, SIMM is already calibrated to a period of stress and there are rules in place to incorporate margin add-ons if required. As well, the model is calibrated on a yearly basis and as we saw with the new SIMM version that went live in December 2021, risk weights were increased based on the review.

10. Are there any other important aspects not covered by the report which should also be prioritised for further international work or policy development?

TD Response – No additional comments.