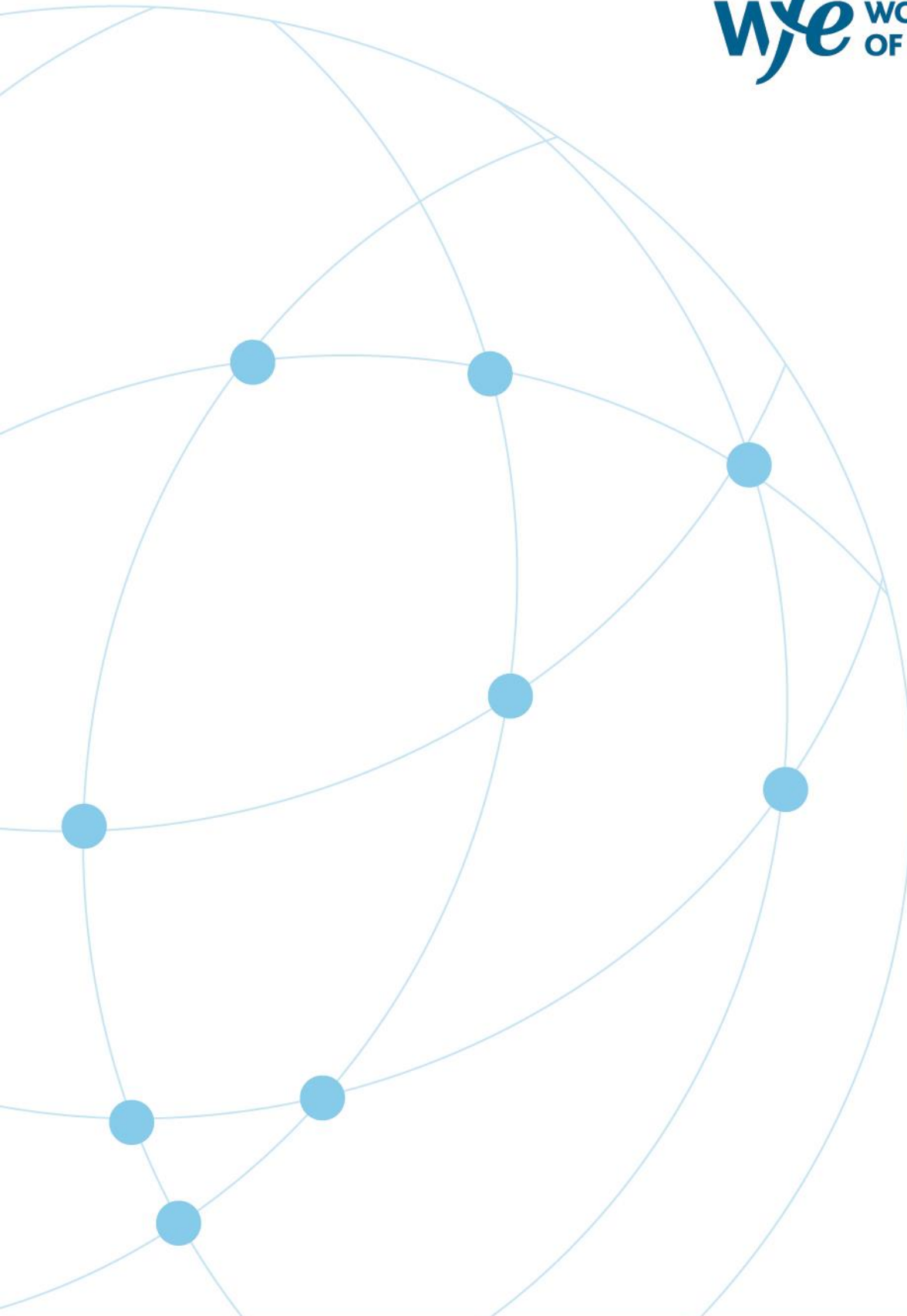




Background

Established in 1961, the World Federation of Exchanges (WFE) is the global industry association for exchanges and clearing houses (CCPs). Headquartered in London, it represents over 250 market infrastructure providers, including standalone CCPs that are not part of exchange groups. Of our members, 36% are in Asia-Pacific, 43% in EMEA, and 21% in the Americas.

WFE's 87 member CCPs and clearing services collectively ensure that risk takers post some \$1.3 trillion (equivalent) of resources to back their positions, in the form of initial margin and default fund requirements. The exchanges covered by WFE data are home to over 55,000 listed companies, and the market capitalisation of these entities is over \$111 trillion; around \$124 trillion (EOB) in trading annually passes through WFE members (at end 2023).

The WFE is the definitive source for exchange-traded statistics, and publishes over 350 market data indicators. Its free statistics database stretches back more than 40 years and provides information and insight into developments on global exchanges. The WFE works with standard-setters, policy makers, regulators, and government organisations around the world to support and promote the development of fair, transparent, stable and efficient markets. The WFE shares regulatory authorities' goals of ensuring the safety and soundness of the global financial system.

With extensive experience of developing and enforcing high standards of conduct, the WFE and its members support an orderly, secure, fair, and transparent environment for investors; for companies that raise capital; and for all who deal with financial risk. We seek outcomes that maximise the common good, consumer confidence, and economic growth, and we engage with policy makers and regulators in an open, collaborative way, reflecting the central, public role that exchanges and CCPs play in a globally integrated financial system.

If you have any further questions, or wish to follow-up on our contribution, the WFE remains at your disposal. Please contact:

Charlie Ryder, Regulatory Affairs Manager: cryder@world-exchanges.org

Richard Metcalfe, Head of Regulatory Affairs: rmetcalfe@world-exchanges.org

Nandini Sukumar, Chief Executive Officer: nsukumar@world-exchanges.org

Response

The WFE welcomes the opportunity to respond to the consultative report on the Transparency and Responsiveness of Initial Margin in Centrally Cleared Markets review and policy proposals published by the Basel Committee on Banking Supervision (BCBS), the 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).

The WFE and its members share regulatory authorities' goals of ensuring the safety and soundness of the global financial system, which is critical to enhancing investor and consumer confidence, and promoting economic growth. However, we question the continued focus upon CCP margining practices following the publishing of data in the original 2022 JWGM *"Review of Margining Practices"* which showed that CCPs have not been the cause of undue liquidity pressures in the market, and instead, have muted the impact of the turmoil on market stakeholders effectively.¹

Furthermore, the WFE believes it is important to recognise the data that CCPs already disclose on a regular basis to the regulators, the market, and the public. In particular, we wish to emphasise the importance of the provision of information by the clearing member to the end-client (for example, in margin add-ons charged by the clearing member (CM), which may be considerably higher than what would be estimated by a CCP simulator). In this respect, the WFE supports the JWGM's efforts to improve CM-to-client transparency. The WFE also appreciates the proposal's steps to increase CM to CCP transparency, but we believe that this does not go far enough to facilitate improved overall transparency in a standardised manner within the financial system, and could be improved by a number of additional reporting fields outlined in our answers below.

The WFE agrees that it is important for market participants to properly prepare for potential liquidity needs, and to assist with this, it is important to consider which outputs from this consultation will be effective tools to assist with market participant preparedness. The JWGM should ensure that any chosen proposals are effective, do not overburden the industry, and are appropriately coupled with disclosures in terms of what they represent. For example, if the JWGM proceeds with the proposed metric of initial margin responsiveness, this will need to be accompanied by sufficient disclosures that the metric does not guarantee any response of a CCP's margin model in the future.

General Questions

- 1. 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.**

CCPs already undertake effective anti-procyclicality measures and provide a high level of transparency via quarterly PQDs, risk policy and framework documentation, descriptions of the margin calculation methodologies, regular margin reports to CMs and clients, margin simulators, and back-testing results. Given this, we question the overall focus on subjecting CCPs to additional disclosure requirements. Notwithstanding this, if certain of the policy proposals move forward, we caution that certain proposed additional disclosures need to be accompanied by the appropriate context and supporting information (quantitative and qualitative) to ensure understanding and avoid misinterpretation of the information by market participants, otherwise it may not benefit market participants in predicting and managing their liquidity needs.

This is particularly true with elements relating to the provision of margin simulators, aspects of the margin responsiveness measure, and additional frequency for PQD-related disclosures. However, Proposal 9 and 10 are particularly beneficial as they will improve clients' understanding of their CM's margin requirements and add-ons thereby enhancing overall

¹ *Review of Margining Practices*, BCBS-CPMI-IOSCO, September, 2022. The review outlined that initial margin (IM) models appropriately addressed the prevailing market conditions during March 2020 and were sufficiently anti-procyclical. Initial margin required by CCPs increased by approximately 40%, compared to the 400% increase in the VIX volatility index, and that even at their peak total (ie VM and IM), margin calls in the centrally and non-centrally cleared space accounted for 2.5% or less of the overall liquidity resources and an average of 5% or less of the central bank reserves held by larger intermediaries. These ratios demonstrate that margin calls had a very small impact on liquidity, were not procyclical, and did not have a destabilising effect on market stakeholders.

transparency across stakeholders (CCPs, CMs and clients).

2. **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?**

Please see below for further details.

3. **Many of the proposals recommend that a market participant group (eg 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 for CCPs is important when proposing enhanced disclosures or new practices. Consideration should be given in particular to the cost vs. benefit of adopting enhanced disclosures or new practices for CCPs. The complexities and resource requirements involved in building simulators are significant and some CCPs may find it time-consuming and expensive to build sophisticated simulators catering for all asset classes and products. Please see below for further details.

4. **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?**

The WFE generally supports the continued transparency of margining practices. However, new transparency requirements limited to centrally cleared markets could further widen the transparency gap vis-à-vis non-centrally cleared markets. Strengthening the resilience of financial markets as a whole should remain the overarching goal. Hence, WFE wants to emphasize the need for further transparency from uncleared markets.

Specific Questions

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

In general, we believe offering margin simulators is appropriate, but that there are limitations here to what can be offered - i.e., we believe the expectation should be for margin simulators to be available for market participants to run their portfolios using current margin rates and that other offering, such as analysis under historical scenarios and hypothetical and custom scenarios should be at a CCP's discretion. Generally, for us, the most concerning aspect of these proposals regarding margin simulation tools is the requirement for CCPs to offer hypothetical scenarios and participant-customised scenarios, as requiring such functionality would subject CCPs to substantial operational and financial costs without clear benefits for market participants' liquidity planning.

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

Simulators are typically made available through the CCP's website or via an API and UI. The WFE support allowing for the broadest range of methods so that CCPs can tailor access to whatever is appropriate for their users. CCPs should have the ability to determine access for participants based on the typical ways in which they provide access to other CCP tools - not required to adopt other methods.

- 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)?**

CCPs should be able to base decisions on how to build or whether to 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).

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?

We recognise the importance of CCPs providing appropriate information so that participants can adequately manage their liquidity needs (assuming no proprietary data is disclosed), but we do not believe it should be the CCP's responsibility to do the liquidity management of the participant or to assume the role of software vendors to create the tools required.

Margin simulation for hypothetical and custom scenarios is not common practice, may not be particularly useful, and is likely to substantially increase development costs for CCPs. It would be challenging and overly complex to provide tools that run "what-if" analysis of potential changes in initial margin requirements under different hypothetical and custom scenarios - especially ones that give a precise picture of potential future episodes of market stress. The relative complexity of such scenarios needs to be considered, as, in part, participant portfolios are unique and thus, it would be impossible to design tool that could effectively capture the unique risks of the variety of portfolios cleared by a CCP. For example, a scenario does not simply outline that "the price of a product increases by 10%". Products are typically correlated with other products which may also be part of a portfolio, and this would thus need to be considered. The derivatives in the portfolio would need to be repriced, and therefore it would be necessary to know the deltas involved, for instance.

In addition to the WFE's general concerns on requiring CCPs to provide margin simulators with enhanced functionalities, it also warns against suggesting that specific historical and hypothetical scenarios used in CCP default fund calibration, should be provided as a part of margin simulation tools. These scenarios have a very different purpose than a CCP's margin methodologies, which is the focus of the proposed simulations. The scenarios used for the default fund are designed to cover risks beyond what is intended to be covered by one's margin models, thus, making their inclusion unsuitable and potentially confusing for users. Additionally, the number of scenarios used in CCP default fund calibration can be very large (for example, in the hundreds), resulting in computational complexity and onerous operational and financial costs.

Therefore, the WFE cautions against mandating the scope of margin tools to enable simulation for historical and hypothetical scenarios, as well as custom scenarios. If such a capability were expected by future guidance, the development costs for CCPs would likely outweigh the benefits, particularly, given the diversity that arises because of the unique nature of each market participant's portfolio. More broadly, it's unclear if market participants would actually use these simulators with this scenario analysis functionality to analyse their portfolios. It is also important to bear in mind the purpose of simulation. It is meant to be illustrative (informative), not exhaustive of every market permutation. It needs to be clear to market participants that margin simulators are not indicative of a definitive outcome, and that CCPs must still have discretion when it comes to initial margin requirements.

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?

We believe the incorporation of add-ons is dependent on the given CCP and the specific features of the margin model. For example, some add-ons that are embedded into the margin model may be easy to incorporate, but other add-ons that are discretionary in nature or calibrated outside of a CCP's core margin model (e.g., add-ons related to counterparty creditworthiness or stress testing results, or participating in extended trading hours) are challenging to incorporate.

6. 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?

The WFE opposes the proposal to mandate the monthly reporting of product-level back testing results, as WFE does not believe it would provide meaningful benefits for market participants. Back testing at the portfolio-level, as is currently reported in the PQDs, is of more value in a practical sense. One of the key benefits of central clearing is that CCPs margin at the portfolio-level, which allows for appropriate margin offsets to be provided across portfolios. Providing backtesting results at the portfolio-level ultimately provides the most useful information, as every portfolio is different, and ultimately influenced by all products that make up said portfolios.

The WFE also discourages the mandating of daily reporting requirements for other fields, which would also place excessive operational and reporting demands on CCPs, and may encourage speculation in the market by allowing the reverse engineering of concentrated participant positions. We believe that daily reporting requirements will force CCPs to output an indigestible amount of information, and that the consultation does not clearly articulate how this is of benefit from a liquidity preparedness perspective. Therefore, the WFE recommends that PQD publishing is maintained at the current quarterly frequency with a two-month lag, and that the JWGM does not undertake further review of PQD formatting following completion of the Phase 2 margin work. We believe first and foremost that the current reporting timeline provides a sufficient period for necessary review and promotes accuracy of publications. The current reporting timeline also does not present problems with respect to public disclosures for CCPs that are publicly traded, which may occur if daily reporting is adopted, since financial statement disclosures for some CCPs include information on initial margin. Broadly, the current reporting timeline is also appropriate since CCPs do not change their margin methodologies on a frequent basis (and when such changes do occur, they are typically subject to a public rule-filing process).

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 above.

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?

The WFE does not believe that any further amendments to the PQDs are necessary, including the ones proposed. Regardless of how much information CCPs disclose, it is the willingness of market participants to use the available data to prepare for changes in margin levels that remains the crucial factor. Although PQD webinars are frequently offered by CCPs in order to discuss their reporting and margin methodology, these are sparsely attended. Therefore, focusing on widening the use of existing tools would likely have a greater effect 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?

No comment.

7. 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 (ie 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?**

The WFE does not agree that a standardised margin responsiveness metric will meet the report's goal to assist with market participant liquidity preparedness. However, if a metric must be used, given the large diversity within the WFE membership, we encourage standard setters to allow each CCP to design an appropriate metric of margin responsiveness. While this approach may not allow for the same level of standardisation within the international clearing community, it would however provide more value, as it would be tailored to the unique characteristics of each CCP's margin model.

The WFE appreciates that the JWGM's intention is to provide a simple and high-level metric that gives some level of context to how a CCP's model reacted to recent market events. However, it is our view that if such a metric were to be mandated, then significant caveats should accompany any reporting to ensure that it is not misinterpreted and does not contribute to any market participants being less prepared for margin calls than otherwise.

The consultation offers two options to estimate the volatility component, either a (rolling) standard deviation, or a 99% percentile calculation (such as Value at Risk). Both of these methods represent a choice on how to model risk (i.e., a risk model). Therefore, the method should clearly state that it does not measure the responsiveness of a CCP margin model to its inputs, as a "responsiveness measure" would be expected to do. Instead, the proposed method compares the responsiveness of the CCP's margin model with that of the risk model selected by the JWGM, which should not be assumed to be a benchmark risk model for the industry.

Furthermore, if implemented, the proposed measure should come with caveats outlining that the measure is dependent on prior inputs (not volatility), and thus, cannot be used to compare models. Two different sets of inputs may result in two very different responsiveness measurements, and a model that appears less responsive in one scenario may be the most responsive in a different scenario. In addition, it should be clearly noted that the measure's path dependency renders the proposed measure as prone to producing diverging measurements under future scenarios, even if the level of volatility is the same. While we do not believe it is the intention of the standard setters to implement a standardised measurement of margin responsiveness that is forward looking, this should still be made abundantly clear so that any measurement, if adopted, is not misinterpreted. It is extremely important that any simple metric comes with an appropriate health warning – ideally from the regulators themselves, and not just from CCPs.

- 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.**

Please see above.

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

Please see above.

- 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?**

Please see above.

8. 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?**

In general, the WFE agrees that the most important metrics for assessing and evaluating the performance of initial margin models are margin coverage, responsiveness, and cost. However, these three factors should not be oversimplified, and not all three of the factors can be considered with equal weight – consistent with standard setters' recognition, margin coverage should be considered the most important factor.

It should be noted that CCPs already have policies and procedures in place for governing margin responsiveness and these are typically found within the CCP rulebook. In regards to Proposal 8, there should be a distinction between what is disclosed to the regulator, and what is included in PQDs, when CCPs make use of expert judgement.

- 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?**

WFE once again emphasises, that in considering these three factors, the priority should be ensuring a minimum level of regulatorily required margin coverage. Margin coverage ensures the resilience of CCP and mitigates the risk of the mutualisation of losses, contributing positively to financial stability, while strict requirements for margin responsiveness may lead to insufficient margin coverage during crises. The "margin cost" element is entirely the responsibility of the CCP. It is a risk management decision for CCPs to find the balance between financial resources for margins and the default fund while ensuring adequate coverage and responsiveness. It should not be the regulator's job to make operational decisions for CCPs.

9. 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?**

The WFE supports the proposal for CMs to ensure their clients have sufficient understanding of both CCP and CM margin requirements, as well as the process and scheduling around the collection of margin. CCPs are already extremely transparent, so ensuring that CMs also provide transparency into their margining practices to clients benefits the overall system by improving clients' understanding of the CMs margining practices. Additionally, 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?**

No comment.

- 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?**

The WFE supports the disclosure of backward-looking information on the maximum, minimum and average differences between client margin requirements set by the CM and the margin requirements of the CCP over a defined period of time.

- 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. The survey results presented in the *2022 Review of Margining Practices* showed that some clients considered that the actions of intermediaries could have contributed to margin unpredictability and that mismatches between the processes and the timing at different intermediaries could have increased the need for clients to hold liquidity buffers². This is an area which has not had a lot of focus to date and is in need of increased transparency.

- 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 are unlikely to be prohibitive, as CMs who provide client clearing are sophisticated entities for whom these types of disclosures will not be overly burdensome. The implementation of the proposed disclosures is expected to have positive effects on risk management. To avoid sharing of any proprietary or confidential information, CMs can share certain disclosures with their clients directly.

10. 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?**

As noted in our initial response to the *2022 Review of Margining Practices*, the WFE is supportive of the proposal for CMs to disclose additional metrics to the CCPs so that CCPs have greater visibility of other positions held by their members. This would aid CCPs in understanding the holistic risks and resources across the cleared derivatives markets through a standardized mechanism that can be effectively embedded into a CCP's already robust counterparty credit risk management practices. A standardised mechanism should also make the process of disclosing this information to CCPs more efficient for CMs, similar to CCPs' preparation of the PQDs.

The WFE would encourage the addition of the following metrics:

- Results of back testing and stress testing – e.g., actual peak and average margin breaches and achieved margin coverage level
- Average daily notional for OTC and average daily volume for exchange-traded derivatives
- Maximum and average margin calls as a percentage of total liquid assets and percentage of total reserves at central banks
- Maximum and average daily security settlement payments (i.e receive versus payment)
- Maximum and average daily FX settlement payments (i.e payment versus payment), including Continuous Linked Settlement activity

² *Review of Margining Practices*, BCBS-CPMI-IOSCO, September, 2022. Highlighted client responses are outlined on page 32.

As well as a high-level description of the models used to set initial margin for clients, including:

- Type of model (e.g. value at risk)
- Margin period of risk (e.g. two days, five days, 10 days, etc.)
- Lookback period (e.g. two years, 5 years, etc.)
- Add-ons (e.g. concentration, liquidity, etc.)

Additional information regarding the CMs non-centrally cleared 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 better risk assessment, monitoring, and mitigation within the financial system, ultimately contributing to the overall stability and resilience.

- 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?**

No, we do not consider the information included in the proposal description to be either redundant or duplicative of 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.