



Cover note to the CPMI-IOSCO report on CCP auctions

In 2017, CPMI and IOSCO agreed that follow-up work should be conducted in the area of good practices for CCPs' default management auctions.¹

In June 2019, CPMI and IOSCO published a discussion paper (the 2019 Discussion Paper)² that was designed to facilitate the sharing of existing practices and views on default management auctions, and to advance efforts to enhance auction practices and procedures.

Consistent with the intent of the discussion paper, CPMI and IOSCO are today publishing an updated document entitled "[*Central counterparty default management auctions – Issues for consideration*](#)". The purpose of this document is to provide a more complete description of the issues that a CCP should consider regarding its default management auction processes, and to identify practices that a CCP could consider in their development of, and improvements to, default management auction rules and procedures to address these issues. CPMI-IOSCO will work with industry to progress these issues over the next twenty four months, before taking stock.

The 2019 Discussion Paper sought to achieve its key purpose by:

- promoting a common understanding of key concepts, key processes (including information needs) and operational aspects that a CCP considers when planning and conducting default management auctions;
- highlighting key issues and challenges in auctions for those who are looking to develop or to improve upon their auction procedures; and
- providing context for industry participants to identify opportunities to foster closer collaboration.

CPMI and IOSCO view these objectives as critical to the development of effective auction practices and procedures and intend to support these objectives going forward.

The response received in the public consultation on the discussion paper demonstrates the strong commitment the industry brings to this area and reflects the importance of default management auctions in a CCP's default management process.

CPMI and IOSCO welcome and encourage the industry efforts to further the development of default management auctions practices.

The consultation process indicated considerable industry consensus on a variety of topics related to default management auctions. However, further work and convergence among industry

¹ See Cover Note to the CPMI-IOSCO revised report on Recovery of financial market infrastructures (2017), available at https://www.bis.org/cpmi/publ/d162_covernote.pdf and <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD569.pdf>. The revised report itself can be found at <https://www.bis.org/cpmi/publ/d162.pdf> and www.iosco.org/library/pubdocs/pdf/IOSCOPD569.pdf.

² A discussion paper on central counterparty default management auctions (2019), available at <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD631.pdf> and <https://www.bis.org/cpmi/publ/d185.pdf>.



participants on a number of additional issues is critical to advancing the development of effective auction practices and procedures.

The new document we are publishing today builds upon the themes expressed in the discussion paper, reflects responses to the discussion paper, and it is not intended to impose additional standards beyond those set out in the PFMI.

CPMI and IOSCO intend to continue engaging the industry on these topics and strongly encourage the industry to collaborate and work on further development of default management auctions practices. Based on the public consultation, CPMI-IOSCO have observed several areas for further industry work, which can be grouped into three categories.

The first category includes several operational issues where there is broad industry consensus to support further development and where CCPs should be well-positioned to advance these issues, bringing such work to closure. These issues would include:

- The standardisation of auction terminology, including defining different types of auction formats;
- The standardisation of certain operational aspects of auction procedures, including in particular: (i) methods of communication, including the form of communication; and (ii) formats for auction files, including auction portfolio and valuation files, by asset class.

The second category includes areas where there are differing views among clearing members and other stakeholders, on the one hand, and CCPs, on the other. Further substantive discussion amongst stakeholders will be necessary to determine the most appropriate way forward in these areas. In the view of this, CPMI and IOSCO strongly encourage the industry to further consider these topics, to reach consensus on how to address them in a manner that reflects the perspectives of various industry participants, and to develop a plan and timeline for implementation and complete the implementation within the twenty-four month period discussed below. These areas include:

- Governance of a CCP's default management process, including how CCPs can reflect appropriately the views of clearing members, clients, and other stakeholders during the default management process. In particular, further consideration may be warranted on the role of default management groups, across all asset classes, and the determination of whether an auction is successful, should be re-run, or if other default management tools should be used.
- Use of traders in default management groups, including potential methods to reduce the burden on clearing members if there are multiple, simultaneous auctions.
- The scope of client participation in an auction (including incentives and whether it is appropriate to include preconditions in the form of financial resources).

The third category includes potential nascent and emerging practices that may require further coordination and harmonisation among the default management processes of multiple CCPs. CPMI and IOSCO encourage the industry to further engage and communicate on these issues, and to identify, where possible, solutions to address potential negative externalities associated with these topics. Where necessary and appropriate, CPMI-IOSCO are prepared to facilitate industry discussions to progress and resolve these issues. Potential areas within this category include:

- Synchronizing default management processes, including hedging and conducting auctions, across multiple CCPs in the event of a default of a common large clearing member.



- The scope for identification of potential hedges between CCPs simultaneously carrying out default management processes and solicitation of bids for such hedges taking into account operational and legal obstacles and challenges. If successful, such hedges may reduce risk at each CCP; however, each CCP will have its own interests and default management process, and should discuss how this can be best effected (including the possibility of having an independent third party to perform this role).³

CPMI and IOSCO encourage the industry to accomplish the first two sets of issues, and to make progress on the third set of issues, over the next twenty-four months. During this time frame, CPMI and IOSCO will continue to address this issue pragmatically engaging with the industry and discussing this work with various stakeholders.

At the end of this time frame, CPMI and IOSCO intend to gather information on and take stock of industry progress (e.g. through a follow up industry workshop no later than mid-2022). CPMI and IOSCO may then, absent resolution of the first two sets of issues, reconsider whether additional work, or, potentially, guidance, could further the development of enhanced auction practices and procedures.

³ Such a process is in early stages of study at this time. CPMI and IOSCO encourage this work while recognizing that investigation of this particular issue may be ongoing over the next twenty four months.