
**EACH Response – BCBS-CPMI-IOSCO
consultative report on transparency and
responsiveness of initial margin in centrally
cleared markets**

April 2024

1. Introduction

The European Association of CCP Clearing Houses (EACH) represents the interests of Central Counterparties (CCPs) in Europe since 1992. CCPs are financial market infrastructures that significantly contribute to safer, more efficient and transparent global financial markets. EACH currently has 18 members from 14 different European countries. EACH is registered in the European Union Transparency Register with number 36897011311-96.

EACH appreciates the opportunity to respond to the 'BCBS-CPMI-IOSCO consultative report on transparency and responsiveness of initial margin in centrally cleared markets'. We commend authorities for considering the need for an adequate amount of transparency across the full clearing value chain as well as for analysing the important and challenging issue of responsiveness of cleared initial margin.

While we detail our views in the answers to the different questions, below you can find a summary of the main ideas included in this response:

- Regarding **transparency**, EACH believes that the level of transparency measures required from the CCPs at present are considered sufficient, as CCPs provide a wide range of measures from Margin simulators and PQDs to website disclosures and private disclosures to CMs and clients.

EACH welcomes that this consultation looks at the full clearing value chain: from CCPs, through clearing members (CMs) to clients. In the interest of providing such level of transparency from CCPs to CMs and from CMs to clients, we believe that any proposal being considered should be considered in a uniform manner from CCPs to CMs to Clients. It is of equal importance to ensure that any additional measures prescribed are also taken into account by CMs and Clients in their liquidity preparedness exercises.

- On the proposal to increase the frequency and breadth of **Public Quantitative Disclosure (PQDs)**, we emphasise that the information contained within is not portfolio specific and is backward-looking, making it unclear how this increase could be used for liquidity preparedness which is by nature forward-looking.
- Regarding **margin simulators**, the main challenge is finding a balance between the cost of implementation and operating the simulation tool and the reliability of the results. EACH strongly recommends against forward looking scenarios, which we do not believe provide meaningful added value to users, could put an undue liability on CCPs and will have significant implementation and maintenance costs. Additionally, CCPs note that margin simulators show very little use by CMs and clients.
- EACH members respectfully disagree with the proposed method for measuring margin **responsiveness** alongside the associated change in volatility being an informative way of measuring responsiveness. As described in our response, using volatility has different limitations such as it being not observable and it changes not fully capturing

the drivers of margin procyclicality that are within CCPs' control. We suggest considering an **alternative proposal** for measuring margin **responsiveness**, that focuses on analysing how initial margin would change under different market stress scenarios, namely historical periods of volatility. We recommend that the design of the approach is left to the CCPs, subject to CCPs internal policies and procedures standards.

- On measures on **discretionary judgement by CCPs**, we highlight that there may be events that will go beyond the circumstances covered by the CCP rulebook. For this, CCPs believe it is important for them to retain a degree of discretionary judgement.

2. General Questions

Q1: 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.

Introduction

Regional legislation such as EU and UK's EMIR and the standards by global authorities such as the CCPs' PQDs had largely focused on the CCP to CM leg. We therefore believe that the level of disclosures required from the CCPs at present are considered sufficient in terms of breadth and frequency. In addition to such disclosures such as the PQDs, CCPs provide the following additional types of transparency:

- **Public**
 - Rulebooks
 - Metrics on volumes and transactions
 - Margin models-related disclosures on website.
- **Private** to clearing members and to some extent clients:
 - Other forums such as the CCPs' Risk Committees ensure oversight and transparency on CCP margin practices or any significant change to their models or margining practises.
 - EMIR requires that CCPs make margin simulators available to their membership adding a in practise important level of transparency of those models 'in practise' to the members.

CCP transparency

EACH members believe that the current level of disclosures provide sufficient transparency from CCPs to CMs and its Clients. Notwithstanding that, the set of proposals suggested would provide further data points from CCPs to CMs and Clients, However, EACH considers that these alone are not sufficient to ensure that CMs and clients incorporate the information provided via these means by the CCP into their liquidity preparedness.

EACH believes that any proposals considered should be applied in a uniform manner across CCPs, CMs and clients. However, we consider that the proposals as suggested by BCBS-CPMI-IOSCO are not uniform in the following ways:

- **Margin simulators** – CCPs are obliged to disclose simulators, whilst CMs are given a choice of whether to disclose publicly or privately. Equally, detail on what should be included in CCP simulators is included, but not for CMs.
- **PQD disclosures** – CCPs operate quarterly PQDs, and this proposal looks to increase the coverage and publication frequency – on the other hand, there are no PQD requirements for CMs.
- **CCP discretion** – There are requirements on CCP use of discretionary judgement, which is not the case for CMs.

In our view, the approach to transparency should therefore be holistic and cover:

- Uniform requirements for:**
 - Transparency in the CCP-to-CM relationship.
 - Transparency in the CM-to-client relationship. Since the link between CM and client is very different from the link CCP-to-CM, we believe that a higher level of transparency would be justified and beneficial for this leg.
- Incentives for CMs and clients** to incorporate the information provided via these means by the CCP (and CMs in the case of clients) into their liquidity preparedness.

Clearing members to client transparency

EACH is supportive of the overarching proposal relating to CM to Client transparency in order to support users understanding of the risks across markets and the margin models employed. Adding transparency on the leg from CM to clients should largely enhance transparency compared to today and be in line with some developments in regional legislation such as EMIR 3.0.¹

Clearing members to CCP transparency

We also welcome the consideration given by BCBS-CPMI-IOSCO to ensure that transparency not only flows in one sense of the value chain but also in reverse, as indicated in the suggestion for transparency from CMs to CCPs. This should ensure a full overview of transparency by authorities.

Considerations for additional transparency

EACH members suggest that authorities consider the following regarding their suggestions for additional transparency:

- **Focus on measures crucial for users and regulated entities** - The implementation of the proposals will require the development/enhancement of the tools (e.g. margin

¹ See EMIR 3 proposal: <https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:52022PC0697>

simulation tool), using additional resources and/or further automatization of reporting (e.g. PQDs). This will lead to an increased cost of clearing. Thus, it is vital to consider which solutions are crucial to CMs and clients and what is their ability to make use of the additional disclosures. Additionally, measures should ensure that any additional data or frequency provided by the CCP is also being used by regulated entities such as banks and other financial institutions.

- **Limitations of PQD proposals** - From the set of proposals, the margin simulation tool may be a suitable measure to increase transparency. However, regarding the PQDs related proposals, while they may be beneficial, the increased frequency of reporting might lead to loss of quality with no significant value added for members (unless enhanced automation is used, which again increases cost). Furthermore, given that PQDs contain information which is more general, high-level and not portfolio specific, and since PQDs are retrospective and not forward looking, there is limited benefit in them helping clearing members and clients in their liquidity planning.
- **Cost-/benefit of margin add-ons** - Some of the proposals related to the disclosure of margin model data might have a higher cost for the CCPs than benefit for CMs and clients. This is particularly the case for the proposal 3.I referring to the disclosure of data used for the calculation of margin add-ons, as the volume of data used for these calculations is usually large, which makes it difficult to do a comprehensive replication by CMs/clients. Additionally, we do not believe that forward-looking calculations provide a meaningful benefit to the user, and could put an undue liability on CCPs and also incur significant implementation and maintenance costs.
- **Additions needed for full clearing value chain transparency** - EACH would also like to highlight that there are certain disclosure obligations in place for CCPs that do not seem to be reflected in the list of disclosure obligations for CMs. We would appreciate clarification behind the rationale of not suggesting all or at least some of the above measures, such as the margin responsiveness metric, for the CM-to-client leg. We believe that in the interest of transparency across the clearing chain, any appropriate transparency measure should not just be applied to CCPs, but that it should rather be applied for both legs of the clearing chain for a more complete effect. The provisions to be disclosed by CCPs but missing in CMs' disclosures include:
 - CCPs have the obligation to make margin simulators available to all CMs and their clients. CMs, have the option for a private disclosure.
 - There are no responsiveness metrics for CMs margin add-ons.
 - There is no obligation to disclose the responsiveness of CMs margin add-ons.
 - Where CCPs make use of discretion (e.g. expert judgement) to override model margin requirements, they need to have in place measures e.g. governance procedures etc. There is not such obligation for CMs.

Q2: 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?

No, we do not think there are 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.

Q3: Many of the proposals recommend that a market participant group (e.g. 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.

No EACH response

Q4: 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?

Regarding the two broad set of proposals included in the consultation document:

- **Transparency** - We do not see any potential for negatively affecting dynamics on bilateral market margining. We would actually encourage similar transparency measures being applied to those markets.
- **Margin responsiveness** – EACH does not see any interference of the proposal with bilateral margining.

3. Policy proposal specific answers and feedback

Policy proposal 1 & 2 – CCP Margin Simulator

General comment

For this proposal, the main challenge is finding a balance between the cost of implementing and operating the simulation tool and the reliability of the results.

The tool would be of added value if it provides accurate results, i.e., similar to the margins actually requested by CCPs. More sophisticated tools will result in more accurate results but would also require processing of large amounts of data, what might increase cost to a prohibitive level. Additionally, we would recommend against forward looking scenarios given the cost versus lack of meaningful benefit, as well as potentially leading to unintended consequences, for example users misinterpreting data if not used appropriately. Consideration should also be given to the fact that per CCP feedback, margin simulators are used very little by CMs and clients.

Q5a: Are there certain modes of access to CCP simulation tools which are less costly or more effective (e.g., via an API or upon request)?

In general, the web-based solution will be less costly and better accessible than accessing the simulators via messaging protocol or by using native GUIs (Graphic User Interface), as APIs (Application Programming Interface) integration cost needs to be considered. In particular cases, depending on the current clearing system solution in place, some solutions might be more cost effective, i.e. already built-in internal simulators accessed from the basic clearing platform might be more effective than web-based solutions. It should be considered that the chosen mode will depend on the CMs needs, and a one-size-fits-all approach is not appropriate.

We believe that the cost and effectiveness of margin simulation tools would be limited by aligning them as much as possible with 'live' models and based on market data used for product margin computation.

We would strongly recommend against forward looking calculations, which we do not believe provide meaningful added value to users, could put an undue liability on CCPs and will have significant implementation and maintenance costs.

Q5b: 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)?

Given that CCPs neither have a contractual nor direct relationship with CMs' clients, it may be challenging in some cases to give simulator access to clients as this is provided on a contractual basis directly to CMs. However, there is a possibility of mitigating this to a certain extent by clear disclaimers and legal measures proposed by the relevant Data Protection and Compliance Teams.

In the cases where it is legally possible, clients should be able to access the simulator similarly to CMs as long as:

- **Technical capabilities** – To access the simulator, clients should have the technical capability to use the existing platform, without additional operational risk for the CCPs.
- **Client identification possible**- We would in principle see no obvious technical impediment to making margin simulators available to clients as long as CMs' clients can be identified to the CCP. This means that for some net omnibus structures the simulation might not be possible.
- **Considerations of simulators' limitations:**
 - Proprietary rights to the models by 3rd party providers/CCPs.
 - The simulation models by CCPs take into account portfolio view, thus single client margins might not be properly reflected namely for net omnibus accounts
 - Limitations on clients' side from technical and knowledge perspective.
 - Another impediment is the challenge of developing by Clearing Members and ISVs real-time margin information, also for CMs to control in real time which Margins will be requested at client account level by CCPs.

Even in the cases where clients may be given access to simulators to calculate CCP margins themselves, this still does not account for the possible add-ons from CMs, which accordingly to some anecdotal evidence mentioned at some public events can reach up to 200% of the CCP margins.

Q5c: 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?

As mentioned previously, EACH does not see the benefit of including hypothetical scenarios as part of the simulator as for clients of CMs, it will not reflect potential future margin calls as the CM does not do a straight passthrough of the CCP's calls to its clients. For CMs, it could give them a false sense of deterministic future, different depending of the CCP, as well potentially risking their liquidity risk management effectiveness, when unseen stress events unfold. However, in the case its inclusion becomes mandatory, the scenarios provided in the simulation tool should be the same as the ones used by the CCP, to ensure consistency between simulation tool results and the requested margin. Additionally, the stress suite used by CCPs is subject to regular review and validations, namely for completeness and coverage as well as accuracy.

Given the stringent reviews, validations and breadth of the CCPs scenarios it is not obvious what meaningful added value a customisable approach would give. Indeed it may be difficult to control the accuracy and appropriate plausibility of a customisable approach, which could lead to unintended consequences in the results and their use (i.e. incorrectly estimating a margin call). We also question the additional value in offering the users the option to customize their scenarios, if the actual required margin is not aligned with the simulation. Furthermore, customised stress scenarios will also come at a deployment and maintenance costs bigger than the potential benefit they might provide.

Regarding the choice of scenarios, CCPs carefully select, define and review them on a periodic basis. We strongly believe that it is uncertain that the inclusion of such forward looking functionality such as hypothetical scenarios will add the expected value because:

- For clients of CMs, it will not reflect potential future margin calls as the CM does not do a straight passthrough of the CCPs calls to its clients;
- Overall it could give the CMs a false sense of deterministic future, different depending of the CCP, as well potentially risking their liquidity risk management effectiveness, when unseen stress events unfold.

Q5d: 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 there are several elements of the initial margin calculation which would be difficult to incorporate into a standardised simulation tool. These include amongst other:

- **Add-ons:** credit rating, wrong-way risk dependencies. Certain add-ons have specific input variables (e.g. credit rating, wrong-way risk dependencies, etc.), which are internal, difficult to standardize, subject to dynamic updates and linked to other systems and accordingly other input variables.
- **Calibration parameters:** correlation and volatility-related, Monte Carlo simulation VaR. In case of key calibration parameters with regard to correlation and volatility and in case of generating random numbers for a Monte Carlo Simulation VaR, the cost for precise model replication would be either prohibitive or impossible.

Policy proposal 3 – Margin model documentation

Comprehensive model documentation is vital for the CMs to understand what drives the margins. There is a substantial amount of information already available in operational manuals, CMPI IOSCO disclosures and PQDs.

We do not however see the value in disclosing the data used for the calculation of margin add-ons for legal reasons, due to potentially sensitive client related information, and for technical reasons, very large amounts of data that would need to be made available. An example of client sensitive data might be rating coefficient, which is derived from internal assessment of counterparty credit risk.

Policy proposal 4 – Disclosing APC tools

EACH Members consider that the level of disclosures provided at present for APC tools and model components are sufficient and should continue at this level. It is unclear to us what added value this additional disclosure requirement would give versus what is already provided publicly and directly to members (e.g. via the PQDs and via model documentation), and especially given the added operational burden of including more information in the PQDs. \

Additionally, it is difficult for CCPs to mechanically describe how APC tools would work in all circumstances, ahead of time. An alternative is that such a disclosure could focus on generic frameworks rather than specific actions as is suggested in proposal 4.

Policy Proposal 5 - PQDs

<p>Q6a: With reference to Table 5, would the proposed additional data breakdowns and increased frequency of reporting facilitate market participants' understanding of the margin system?</p>
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EACH Members consider that the frequency and granularity of PQDs at present are appropriate. EACH would not support a more detailed or frequent publication such as monthly or daily because:

- **Potential for market distortion** – A more frequent publication than quarterly could potentially result in **over-reaction of the market participants** in a stress event (e.g. too much information without the correct knowledge to understand it or when being able to understand it creating an arbitrage opportunity). An example of this may be that news of a large IM call in a daily disclosure could trigger speculation about which entity is in trouble, leading to speculative behaviour and in the worst case the downfall of a financial institution. Frequent data disclosure could also be misused if not properly reviewed, as smaller members might misinterpret a large CCP-wide margin call as being indicative of their own risk.
- **Not useful in liquidity preparedness** - In the concrete suggestion of **daily disclosures**, EACH does not see how such a frequency could benefit liquidity preparedness, as the information provided in the PQDs is retrospective and therefore out of date by the time markets move and have an impact on liquidity. It is also unclear to us how an individual member would use this accurately for their own purposes given the disclosures are general/high level and not member portfolio specific. Such information would therefore not assist in liquidity preparedness, which is by nature forward looking, and may change in seconds depending on market moves.

Additionally, most of the portfolios underlying the disclosed daily IM requirement are not known to the member who reads the data (since they stem from other members).

- **Operational challenges** - From an **operational** point of view, EACH does not consider that the daily or monthly disclosure of information is feasible. Whilst such data is generated in an automated way by CCPs, it does require data from different aspects of the risk management framework, which takes some time and often longer than one business day to ensure it is correct and presentable. In the case of system issues, having only several hours to correct issues as a result of daily disclosures would be operationally difficult from a staffing perspective. Even moving to monthly disclosures would be challenging and require bringing together data from different risk systems and ensuring it meets quality standards. It is equally important to consider whether market participants can consume this increased data load meaningfully in a way that assists their liquidity preparedness.

As an alternative measure to contribute to liquidity preparedness, we suggest CMs and clients use the **CCP margin simulator**, which is more appropriately designed for aiding liquidity preparedness.

Regarding the specific case of **back-testing results**, we see limited benefit in the reduction of the time lag to one week. Considering that back-testing results are based on a 12-month span, from week to week the result is going to have only little variation. We see more convenient a monthly lag to track changes in this indicator.

Q6b: 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?

As indicated in our answer to question 6a, we do not consider that disclosures more frequent than on a quarterly basis are adequate. To provide high quality requirements for the publication of data, some level of human efforts and checks by specialists is necessary. A change to monthly or even daily publication frequency would significantly increase the publication effort and cost. Fully automated disclosures, on the other hand, do not appear to be prudent enough since they could (for cost reasons) not involve any human check before the publication.

Q6c: 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?

EACH believes that any publication of margin-related data should be retrospective on a quarterly basis.

Q6d: Are there any examples of current public disclosures by one or more CCPs which could be used as a guide for improved transparency?

No EACH response

Policy Proposal 6 – Margin Responsiveness

The questions below refer to [the analytical annex](#) detailing the proposed design of a margin responsiveness metric, as described in Proposal 6 (above).

Q7a: Is the proposed method for measuring margin responsiveness (i.e. 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?

EACH members respectfully disagree with the proposed method for measuring margin responsiveness (i.e. a large call metric) alongside the associated change in volatility being an informative way of measuring responsiveness because:

- Volatility is not observable and would require assumptions, adding complexity without clear benefits.
- Modelling volatility could overcomplicate the metrics rather than keeping them simple.

- Volatility changes may not fully capture the drivers of margin procyclicality that are within CCPs' control, such as reactions to price movements, a truer measure of APC.
- If volatility is calculated at the portfolio level, this would be the volatility of the net present value (NPV) of the portfolio. But change in portfolio volatility does not have a causal relationship with change in Initial Margin. They may be correlated, but they are both driven by the changes in the underlying risk factors of the portfolio. On the other hand, if volatility is calculated at the risk factor level then, while there is a causal relationship between risk factor volatility change and the change in Initial Margin, this would be an oversimplified measure that does not capture the true procyclicality behaviour of the Initial Margin model since it would be only at a single risk factor level and ignore the portfolio effects in typical portfolios that have multiple risk factors.
- In addition to volatility changes, there is noise from other factors that influence the results of the margin model. Volatility is only one model input. It is difficult to separate the signal of volatility change from the noise of all other confounding factors.

As an **alternative**, EACH would propose that a metric should rather focus on analysing how initial margin would change under different market stress scenarios, including past periods of volatility. This could be achieved in different ways; EACH recommends that the design of the approach is left to the CCPs, subject to CCPs internal policies and procedures standards. For example Initial Margin responsiveness could be assessed by looking backwards at margin changes over historical stressed market conditions, or providing forward-looking simulations to show how margins would react to potential future market moves of 1, 2, or 3 standard deviations; more generally the approach would be expected to be formulated as follows:

The above proposal may be formulated as follows:

$$\Delta \text{Initial Margin in Scenario}_N$$

The key aspects of this proposal are:

- Focusing on margin changes rather than complex volatility modelling;
- Allowing flexibility to analyse metrics at either product or portfolio level, whichever is situationally more appropriate;
- Keeping the metrics and explanations relatively simple rather than overly prescriptive.

Qualitative information in addition to quantitative measure

EACH Members believe that there is value in additional qualitative information that could provide contextual information about the reasons and drivers for a given margin shift, such as:

- **Not perfect measure** - Given the challenges in finding a perfect and unique measure as demonstrated by the different views in the interaction between both private and public stakeholders, EACH Members suggest that the qualitative information includes a caveat that any metric(s) would not be a perfect measure.

There is the possibility that having such a measure published may lead to some CMs considering that metric on its own would be enough to measure responsiveness. You would need different numbers from different CCPs, corresponding to the nature of those CCPs.

- **Lack of comparability** – In line with the above, it is also important that this does not create an industry-wide comparison between CCPs. CCPs offer different products, assets and more and are fundamentally individual in nature, therefore, there is a need to educate the market to ensure a clear understanding of the different measures to judge whether the CCPs model is good or not.
- **User preparedness** - Qualitative actions would be encouraged to address users' preparedness for margin responsiveness. In the experience of EACH Member, in the energy volatility period of 2022, CCPs found it useful to have bilateral conversations with CMs and clients, which prevented CMs and clients from missing margin calls. It is also useful to spend time highlighting to members the specificities of their portfolios that would drive their margin calls. Lastly, education efforts should continue to ensure that CMs and clients get a better understanding of CCP models.

Q7b: 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.

- Large call window: five or 20 days. BCBS-CPMI-IOSCO – Transparency and responsiveness of initial margin in centrally cleared markets 5**
- Observation period: one quarter or one year.**
- 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.**
- Volatility risk metric: Standard deviation or VaR (99%).**
- Volatility risk metric lookback period: 90 days or two years.**

As mentioned above, EACH strongly disagrees with the reference to volatility in the formula about responsiveness. The below comments are included in case authorities decide nonetheless to mandate the use of such formula despite our disagreement, in which case EACH would also recommend that CCPs retain flexibility on required parameterisations for any modelling choices:

- **Length of the large call window** – EACH prefers a length of 20 days, as larger windows generally provide a better representation.
- **Length of the observation period** – EACH prefers a length of 1 year as larger windows generally provide a better representation.
- **Single contract or portfolio**

- The question of Portfolio level or risk factor level calculation comes with pros and cons for both. Volatility at portfolio level does not really explain changes in Initial Margin, may mask differences between products in a portfolio and involves comparing model outputs which can introduce unnecessary noise to the picture. On the other hand, if this measure is intended to be at risk factor level, it would not provide a good idea of procyclicality but instead gives a picture of a CCP's risk management more holistically. As indicated above, EACH would prefer any potential measure to give flexibility to the CCP to apply it to either portfolio or product level as they see fit.
- In any case, the risk metric would need to be computed on static portfolios otherwise the change in margin would be partly driven by change in volumes and positions. A frozen portfolio would by default also not reflect any later changes in the real world.
- **Volatility risk metric – VaR vs standard deviation** – EACH sees the benefits and drawbacks of both options and believes CCPs should retain flexibility to use either situation as appropriate.
- **Volatility risk metric lookback period** – EACH prefers 90 days emphasising the responsiveness of the volatility risk metric, which works better with a shorter lookback period.

Q7c: Are there other parameters where calibration decisions are necessary for consistent disclosure of either margin responsiveness or market volatility?

EACH members believe the mentioned parameters are sufficient.

Q7d: 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?

EACH Members note three main challenges in the development and use of the proposed metric:

- **No one-size-fits-all** – European CCPs foresee that the application of the same metric across the board for all CCPs, markets and products may not be adequate. We believe that the volatility dimension makes it challenging to define a fit all measure and we do not believe that the proposed measure is fit for the purpose of providing an informative way of measuring margin responsiveness. We would therefore recommend that a standardised measure should focus on the IM level and changes to it only. Other alternatives may be:
 - Having different metrics for different CCPs, markets and products?
 - Including a caveat in the PQD to state that this metric is only included as a proxy and is not meant to be fully accurate.

- **Potential for regional disparities** – Further to the above challenge of a one-size-fits-all approach, we would suggest that BCBS-CPMI-IOSCO recommend regional authorities to rely on the metric agreed at global level rather than creating alternative measures or ‘gold-plating’ the existing one.
- **Caveats in its use** – As mentioned in previous answers, the use of this measure would be challenged because:
 - **Not perfect measure** - Given the challenges in finding a perfect and unique measure as demonstrated by the different views in the interaction between both private and public stakeholders, EACH Members suggest that the qualitative information includes a caveat that any metric(s) would not be a perfect measure.

There is the possibility that having such a measure published may lead to some CMs considering that metric on its own would be enough to measure responsiveness. You would need different numbers from different CCPs, corresponding to the nature of those CCPs.

- **Lack of comparability** – In line with the above, it is also important that this does not create an industry-wide comparison between CCPs. CCPs offer different products, assets and more and are fundamentally individual in nature, therefore, there is a need to educate market to ensure clear understanding of the different measures to judge whether the CCPs model is good or not.
- **Complexity of application** – variety of utilized risk models and calibration routines and parameter set, as well as different implementation solutions, reporting routines, system flexibility will be a challenging for achieving harmonization.

Policy Proposal 7 – Governance Framework

Q8a: Are there other important balancing factors which should be taken into consideration when evaluating the performance of initial margin models?

We agree that the most important metrics for assessing and evaluating the performance of initial margin models are margin coverage, margin responsiveness and costs. However, it is important not to oversimplify these three measures.

For example, margin coverage also includes preparedness for the risk of large outsized margin breaches that may occur, for instance, for products with more idiosyncratic risk profiles. Furthermore, specifying “average margin cost” is too narrow measure as it requires a broader view of cost measurement, including operational costs and IT costs.

Another important balancing factor is the trade-off between simplicity and complexity of a margin model design. This trade-off affects, for example, effective transparency, costs, potential operational risks, and data dependencies.

In addition to margin coverage and costs, market specificities and market participants should also be considering factors. Therefore, a one-size-fits-all approach would not be appropriate, and a level of flexibility should be given to CCPs to tailor their approach to the products and markets they clear and the margin model they have in place.

Q8b: 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?

When it comes to prioritizing the two objectives “margin coverage” and “margin responsiveness”, EACH believes that the margin coverage is of higher priority since margin coverage ensures the resilience of the CCP, avoids mutualization of losses and spillover effects, and therefore contributes positively to financial stability. In the opposite scenario, strict margin responsiveness requirements may lead to insufficient margin coverage in times of crisis, which would be an undesirable outcome from a financial stability perspective. The “margin cost” element is entirely the responsibility of the CCP. It is a case of to carefully balancing of financial resources shifted between margins and the default fund while ensuring adequate margin coverage and margin responsiveness.

It should be the responsibility of the individual CCP to find the balance between the three factors within the “trade-off” framework, while maintaining minimum margin coverage standards. Consequently, it should not be the responsibility of the regulator to make operational decisions. It is important to recall that the CCP continually monitors and reviews its initial margin model and ensures that minimum margin coverage standards are always met, and balanced with margin responsiveness and costs.

Policy Proposal 8

EACH highlights that there may be events that will go beyond the circumstances covered by the CCP rulebook. For this, CCPs believe it is important for them to retain a degree of discretionary judgement.

Regarding disclosure via PQDs, it is unclear what the benefit of disclosing this information publicly will be. It may on the contrary have an adverse effect during periods of stress if it leads market participants to make assumptions about what actions may or may not be taken by the CCP. It also risks for it becoming a shame game which then risks resulting in a race to the bottom by avoiding necessary practices.

Cases of overriding the margins/manual interventions must be extremely rare (for example rectifying the results of a clearing system error). Such cases shall be covered by a proper governance framework, including the decision levels. It needs to be borne in mind that not all exceptions can be envisaged ex ante, thus the framework shall be broad enough to cover for such cases.

In addition to retaining a degree of discretionary judgement, EACH believes that good governance and oversight is rather the proper supporting mechanism rather than a possible restriction of discretionary judgement.

Policy Proposal 9 – CM to client transparency

Q9a: 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 successful implementation of the measures proposed would largely be dependent on the level of sophistication of the clients, the IT stack and reporting functionalities. We believe that large sell-side, medium sell and buy side clients should have no issue in adoption of the measures, however, smaller buy-side clients may find implementation of the below more difficult due to lack of resources in funding and technological capabilities.

Furthermore, if CMs are applying any adjustment to the CCP margins applicable to their clients, this is of particular value as in this instance the CCP disclosures themselves would not provide sufficient transparency.

Q9b: 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 EACH response

Q9c: 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?

No EACH response

Q9d: 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?

If the intention of authorities is to ensure that responsiveness is measured throughout the clearing value chain, we consider that it would be adequate for CMs to adopt an analytical framework for measuring the responsiveness of initial margin requirements for their clients similar in nature to the proposed framework for CCPs.

Such a requirement would be particularly adequate given that CMs complement the CCPs' margin requirements with their own margin add-ons and most importantly that end-clients

are the ones that have more recently been affected by liquidity stresses linked to margin procyclicality.² CCPs receive questions from clients about why these magnifying effects on their margins in times of crisis may be happening, when in fact they are sometimes coming from CMs.

Q9e: 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?

No EACH response

Policy proposal 10 – CM to CCP transparency

Q10a: 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?

EACH Members believe that the information included in the proposed disclosures provides an adequate and useful set of information that CCPs may use to have a better understanding of individual CMs and the network of connections across them. We understand that some CMs already provide some of these proposed metrics to CCPs as part of their policies and note that similar but higher-level requirement is already in place in the EU further to the following recommendation included in the ESMA report 'EU-wide CCP Stress test 2015':

'ESMA recommends that the National Competent Authorities ensure that supervised CCPs consider in their participation requirements and as part of the initial and ongoing assessment of the credit worthiness of their clearing members, the amount of losses that their members could be exposed to, due to their participation in multiple CCPs taking into account the potential losses of mutualised prefunded and not prefunded resources, on the basis of data that need to be provided by clearing members.'

To help with the implementation of the above recommendation in a harmonised way across the EU, the EACH Risk Committee, in consultation with CMs, developed this [template](#) which intends to:

- Meet the requirements in the recommendation; and
- Optimise its implementation for CMs and CCPs.

EACH believes that any additional disclosure towards CCPs should be provided only if a CCP is to use or act on that information, which CCPs may not want to do.

² See BCBS-CPMI-IOSCO *Review of Margining Practices*. <https://www.bis.org/bcbs/publ/d537.pdf>

Q10b: 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 EACH response

Q10c: Would collection of the information impinge upon current legal disclosure frameworks?

No EACH response

Q10d: Do any of the example disclosures potentially overlap with traditionally proprietary information?

No EACH response

-END-