

2 May 2023

BCBS-CPMI-IOSCO Margin policy work – Virtual stakeholder outreach – End-users/Clients

Background

Following the 2020 March market turmoil BCBS-CPMI-IOSCO established a group to examine whether and, if so, to what extent margin calls were unexpectedly large in centrally and non-centrally cleared derivatives and securities markets. In September 2022 the BCBS-CPMI-IOSCO published the results of its analysis in the final report on the *Review of margining practices*¹ ("phase 1"). This report outlined six areas for further policy work ("phase 2") which is being carried out by the BCBS-CPMI-IOSCO Margin group (JWGM), the CPMI-IOSCO Policy Standing Group (PSG), the BCBS-IOSCO Working Group on Margin Requirements (WGMR) and the FSB Working Group on Margin Preparedness (WGMP), as set out in the table below.

Margining Practices follow-up work		Centrally cleared markets	Non centrally cleared markets
7.1	Increasing transparency	BCBS-CPMI-IOSCO Margin group (JWGM)	-
7.2	Enhancing liquidity preparedness of market participants as well as liquidity disclosures	FSB – SRC – WG on Margin Preparedness (WGMP)	
7.3	Identifying data gaps in regulatory reporting	FSB – SRC – WG on Margin Preparedness (WGMP)	
7.4	Streamlining VM processes	CPMI-IOSCO Policy Standing Group (PSG)	BCBS-IOSCO WG Margin Requirements (WGMR)
7.5 7.6	Evaluating the responsiveness of centrally cleared (7.5) and non-centrally cleared (7.6) IM models to market stresses	BCBS-CPMI-IOSCO Margin group (JWGM)	BCBS-IOSCO WG Margin Requirements (WGMR)

To support its development of any proposed guidance and/or policy recommendations in this second phase of the work, the JWGM and the WGMR are hosting three outreach sessions with

- intermediaries/clearing members;
- end-users/clients; and
- collateral service providers.

¹ Available on the BIS website (www.bis.org/bcbs/publ/d537.htm) and on the IOSCO website (www.iosco.org/library/pubdocs/pdf/IOSCOPD714.pdf).

These events will follow the Chatham House Rule and remarks will not be for attribution.² Participants are free to use the information received, but neither the identity nor the affiliation of the speaker(s), nor that of any other participant, may be revealed.

The purpose of these outreach sessions is to complement the quantitative data collected during phase 1 by gathering further information on how to:

- increase transparency to the public, to regulators, and/or to specific participant categories (including clients, clearing members, third-party providers, and other relevant stakeholders);
- understand the degree and nature of CCP IM models' responsiveness to volatility and other market stresses;
- explore appropriate ways to analyse, compare and set baseline expectations for procyclicality in various settings; and
- foster market participants preparedness for above-average VM calls through the efficient collection and distribution of VM in non-centrally cleared markets.

During the outreach sessions, online polls will also be conducted (see Annex for potential polling questions); responses are anonymous. Summary results will be shown during the outreach session and may be used to support future analysis.

Participants are invited to send in further written comments on the issues discussed during this outreach session to the Secretariats (baselcommittee@bis.org; cpmi@bis.org; margin@iosco.org) by **31 May 2023**. When drafting your comments, please include a reference to what capacity(ies) you are commenting in (ie intermediary/clearing member/end-user/client/collateral service providers), the relevant agenda item and the specific question (if applicable).

Annotated Agenda – Workshop 2 – End users / Clients

17 May 2023, 13.00 – 15.00 CEST

1. Introduction (13.00 – 13.05)

Frédéric Hervo (WGMR co-chair) will briefly introduce the objectives of this virtual outreach.

2. Transparency in centrally cleared markets (13.05 – 14.00)

Moderators: Roy Cheruvelil and Rehim Kilic (JWGM Transparency workstream co-leads)

Objective: This session will discuss transparency in centrally cleared markets with the aim of investigating ways to improve disclosure to the public and/or to specific participant categories (including clients, clearing members, third-party providers, and other relevant stakeholders).

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Issues for discussion:

Margin simulation tools

1. What tools do you use to estimate CCP margin requirements on your current or anticipated portfolios (e.g. in-house, third-party, or CCP-provided tools)? Does the use, or value, of the tools change as market conditions change?
2. Do the tools disaggregate margin requirements between those set by the CCP and any margin adjustments set by the clearing members?
3. What not yet commonly provided tools or tool capabilities would be of greatest help estimating liquidity needs?

Transparency of clearing member margin adjustments / multipliers

4. Does your clearing member disclose information to you about how and why they assign margin add-ons/multipliers? If yes:
 - a. What information do they usually disclose?
 - b. Would further disclosures be useful in aiding your liquidity preparedness.

Other forms of disclosures

5. In addition to simulators or other quantitative tools, what CCP and/or clearing member disclosures do you use to aid with your liquidity preparation? Of the information shared with you, what have you found most helpful when anticipating future margin calls?
6. Do you think that disclosures provided by your clearing members regarding cleared margins should be more standardised? If so, what standardized information would be most useful to you when preparing for liquidity demands?

3. Variation margin processes in non-centrally cleared markets (14:00-14:55)**Moderator:** Thomas Littlefield (WGMR VM workstream lead)**Objective:** This session will discuss the variation margin processes in non-centrally cleared markets to understand how to better foster market participants preparedness for above-average VM calls through the efficient collection and distribution of VM in non-centrally cleared markets.**Issues for discussion:**

General non-centrally cleared VM process

1. What are the various material processes required for VM exchange across the firm's various business units, and what role do these processes play in facilitating the exchange of VM?
2. Have you experienced any frictions (eg technical constraints for the exchange of non-domestic cash VM for domestic and/or cross-border transactions) in these processes during the COVID or subsequent stress periods?
3. With regard to collateral optimisation, do you currently employ a centralised system for collateral allocation; specifically, an operationally interconnected system, a single centralised desk, or third party to manage collateral use between operating units?

Third-party service providers

4. Have you experienced a concentration of third party service providers and have the flow processes of non-centrally cleared VM exchange been restricted due to lack of diversity in third-party service providers?

Collateral and general wrong-way risk

5. Have you experienced a narrowing of the allowable set of collateral for VM and if so, in your assessment, what has caused it?
6. What risk management improvements can be made in markets where there are interactions between large VM calls for banks/non-banks and stresses in high quality liquid assets (HQLA) markets such as money market funds and sovereign bonds, through which they fund cash calls?

Transparency and dispute resolution

7. What types of increased transparency (eg collateral schedule) and communication/information (eg between dealers/banks and clients) could lead to better preparedness by clients in the event of large VM payments?
8. Did issues with dispute resolution in relation to non-centrally cleared VM calls contribute to liquidity risk during the COVID period of market stress periods since?

4. Conclusion and wrap up (14.55 – 15.00)

Richard Haynes (JWGM co-chair) will provide concluding remarks and describe next steps.

Annex: Potential polling questions

1. Transparency in centrally cleared markets (13.05 – 14.00)

A. Margin simulation tools

1. Please select the top three most important types of scenario parameter input files a CCP margin simulation tool should be able to process.

- Historical market conditions from a user-specified date
- Parallel percentage shifts in price/risk factor curves
- Parallel absolute (non-percentage) shifts in price/risk factor curves
- Non-parallel percentage shifts in price/risk factor curves
- Non-parallel absolute (non-percentage) shifts in price/risk factor curves
- Percentage shifts in implied volatility inputs/curves/surfaces
- Absolute (non-percentage) shifts in implied volatility inputs/curves/surfaces
- Live data feeds reflecting current market prices
- Customised stress test scenarios/risk factor shock parameter files designed by the CCP
- Customised stress test scenarios/risk factor shock parameter files designed by the user

B. Transparency of clearing member margin adjustments / multipliers

2. If your clearing broker sets initial margin requirements above CCP margin requirements, are you made aware of this by your clearing broker?

- Always
- Almost always
- Sometimes
- Rarely
- Never

3. If your clearing broker sets initial margin requirements above CCP margin requirements, approximately how much higher are the margin requirements you face relative to the CCP margin requirements?

- 1.1 times higher
- 1.2
- 1.3
- >2
- Unknown

2. Variation margin processes in non-centrally cleared markets (14:00-14:55)

General non-centrally cleared VM process

1. Did you experience material frictions in the processes that underlie VM exchange during the COVID or subsequent stress periods? For example, technical constraints for the exchange of non-domestic cash VM for domestic and/or cross-border transactions (eg securities settlement timing under national regimes, custodian limitations, FX settlement cycles, etc.)

- Materially
- Moderately
- Not Materially

Third-party service providers

2. Have the flow processes of non-centrally cleared VM exchange been restricted due to lack of diversity in third-party service providers?

- Materially
- Moderately
- Not materially

Collateral and general wrong-way risk

3. Do you consider the constrained set of highly liquid assets to represent a material hinderance within the non-centrally cleared VM exchange process?

- Materially
- Moderately
- Not materially

Transparency and dispute resolution

4. Would increased transparency and communication/information exchange (e.g., between dealers/banks and clients) lead to materially better preparedness by counterparties in the event of large VM payments?

- Materially
- Moderately
- Not materially

5. Did issues with dispute resolution in relation to uncleared VM calls contribute to liquidity risk during the COVID period or market stress period since?

- Materially
- Moderately
- Not materially