Basel Committee on Banking Supervision | Committee on Payments and Market Infrastructures | BIS | OICU-IOSCO

2 May 2023

BCBS-CPMI-IOSCO Margin policy work – Virtual stakeholder outreach – Intermediaries/Clearing members

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 1 – Intermediaries/Clearing members

16 May 2023, 13.00 – 16.00 CEST

Introduction (13.00 – 13.05)

Sasha Mills (JWGM 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).

[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. Views expressed in this meeting are those of the speaker or participant and may not reflect those of their organisation, the Bank for International Settlements, the International Organization of Securities Commissions (IOSCO) or their members. Neither the BIS' the Basel Committee on Banking Supervision (BCBS), Committee on Payments and Market Infrastructures' (CPMI) and/or the IOSCO name or logo(s) nor your participation in the event should be used by you or your firm for marketing or promotional purposes, nor be construed as endorsement by the BIS, BCBS, CPMI, IOSCO or their members of part or all of products, services or any other businesses of your firm.

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. What not-yet commonly provided tools or tool capabilities would be of greatest help when estimating liquidity needs?

Clearing member to client tools/disclosures

3. Do you usually provide clients with a tool to help them estimate margin requirements on their current, or anticipated, portfolios, including your own add-ons? Does any shared tool disaggregate the margin requirements between those set by the CCP and those added by you?
   a. Do you have a sense about how commonly tools/information are used by CCP participants? Does this differ by asset class or by participant type?

Other forms of CCP disclosures

4. In addition to simulators or other quantitative tools, what CCP disclosures do you use to aid with your liquidity preparation? Does this generally include public documents like PQDs and/or less broadly shared CCP information such as quantitative or qualitative information on the margin model itself?
5. Of the information shared with you, what have you found most helpful when anticipating future margin calls?

3. Responsiveness of initial margin models in centrally cleared markets (14.00 – 15.00)

Moderators: Oliver Hutengs and Francesco Vacirca (JWGM IM Responsiveness workstream co-leads)

Objective: This session will discuss the role of clearing members / intermediaries in setting initial margin requirements for clients for centrally-cleared contracts.

Issues for discussion:

Client-clearing services and initial margin requirements

1. Do you generally set centrally cleared initial margin requirements for clients higher than CCP (or regulator) minimum initial margin requirements?
   a. If so, to what extent?
   b. Does the magnitude of the difference vary through time (e.g. in stressed vs non-stressed periods) and by asset class?
2. How do you determine centrally-cleared initial margin requirements for clients?
   a. What are the key considerations that determine whether client margin requirements are set above CCP minimum requirements? Is APC a factor?

b. Is the setting of client margin requirements a mechanical process, or do you apply discretion when setting margin requirements? If so, what are some of the most common causes for the use of discretion and who exercises this discretion?

c. Where discretion is used, what form of ex post review is done to better understand why discretion was needed?

3. What information do you provide to your clients about how and why you assign add-ons/multipliers on top of the CCP requirements?

4. Since January 2020, have you implemented material changes in how you calculate and/or charge client initial margin requirements? What factors can trigger a review or recalibration of client initial margin requirements and who decides how these changes will be implemented?

Variation margin processes in non-centrally cleared markets (15.00 – 15.55)

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 material processes required for VM exchange across the firm's 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?

Third-party service providers

3. 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

4. Have you experienced a narrowing of the allowable set of collateral for VM and if so, in your assessment, what has caused it?

5. 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

6. 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?

7. Did issues with dispute resolution in relation to non-centrally cleared VM calls contribute to liquidity risk during the COVID period or market stress periods since?

5. Conclusion and wrap up (15.55 – 16.00)

Rafael Martinez (WGMR co-chair) will provide concluding remarks and describe next steps.

Annex: Potential polling questions

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

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

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

2. Responsiveness of initial margin models in centrally cleared markets (14.00 – 15.00)

Client-clearing services and initial margin requirements

1. In "normal" market conditions, approximately what proportion of clients do you charge margin above the CCP's margin requirements?
    - 0%
    - 1-20%
    - 21-50%
    - >50%

2. In "stressed" market conditions, approximately what proportion of clients do you charge margin above the CCP's margin requirements?

- 0%
- 1-20%
- 21-50%
- >50%

3. When charging margin above CCP margin requirements, on average how much higher are the margin requirements you set for clients relative to the CCP's requirements?

- 1.1 times higher
- 1.2
- 1.3
- >2

4. When charging margin above CCP margin requirements, what is the maximum margin requirements above the CCP requirements you set for clients.

- 1-2 times higher
- 2-3 times higher
- 3-4 times higher
- >4 times higher

5. What processes do you use to determine client initial margin requirements? [Select all relevant answers]

- Pass-through of CCP margin requirements, potentially with the addition of multipliers, buffers, add-ons or other adjustments deemed necessary by the intermediary.
- Proprietary margin model(s) that calculate initial margin requirements independently of CCP initial margin requirements.
- Third-party margin model(s) that calculate initial margin requirements independently of CCP initial margin requirements.
- Other

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

General non-centrally cleared VM process

6. 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

7. 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

8. 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

9. 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 material

10. 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