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asset management group

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Re: Consultative Report on Review of Margin Practices (the "Consultative Report") by the Basel Committee on Banking Supervision ("BCBS"), Committee on Payments and Market Infrastructures ("CPMI") and the Board of the International Organization of Securities Commissions ("IOSCO")

Dear Secretariats:

The Asset Management Group of the Securities Industry and Financial Markets Association ("**SIFMA AMG**" or "**AMG**")[1] appreciates the important work of BCBS, CPMI and ISOCO (collectively, the "**Supervisory Authorities**") in performing an analysis – as part of the Financial Stability Board's (FSB's) work program on non-bank financial intermediation ("**NBFI**") – examining whether and, if so, to what extent, margin calls were unexpectedly large in centrally and non-centrally cleared derivatives and securities markets during the March 2020 period of high market volatility ("**March 2020**"). SIFMA AMG also appreciates the extensive work of the Supervisory Authorities to conduct detailed surveys of central counterparties ("**CCPs**"), clearing members and broker-dealers ("**Intermediaries**") and securities market participants ("**clients**") to collect quantitative and qualitative data across centrally cleared and non-cleared markets with respect to margin experiences during and after March 2020.

The data gathered in the course of these surveys addressed the size, composition, and drivers of margin calls; the transparency of margin practices; and the preparedness of market participants to changes in margin during this period. SIFMA AMG is gratified to see that the data demonstrated that,

[1] SIFMA AMG brings the asset management community together to provide views on policy matters and to create industry best practices. SIFMA AMG's members represent U.S. and multinational asset management firms whose combined global assets under management exceed $45 trillion. The clients of SIFMA AMG member firms include, among others, tens of millions of individual investors, registered investment companies, endowments, public and private pension funds, UCITS and private funds such as hedge funds and private equity funds.

inter alia, cleared markets experienced significant increases in the total initial margin ("**IM**"), while IM requirements in non-centrally cleared markets remained relatively stable; the transparency around margin models differ across CCPs and jurisdictions; and many clients faced liquidity needs materially greater than anticipated, with margin needs in cleared markets exacerbating overall liquidity challenges faced by global financial markets in this period.

I. General Observations:

SIFMA AMG members, a number of whom responded to the client survey, confirm these findings, and are gratified to see that while cleared markets weathered the March 2020 volatility without widespread systemic defaults, regulators recognize that the experience demonstrates the urgent need for effective reforms.

Our members have been consistent, engaged supporters of the global mandates for the central clearing of standardized derivatives, and have worked closely with global regulators, with CCPs, and with Intermediaries to enhance the regulatory framework for central clearing so that it is a resilient structure to facilitate a healthy, growing derivatives market. SIFMA AMG has long advocated for a globally harmonious, risk-appropriate, and efficient ruleset targeting improvements with respect to CCP capital, transparency and governance, and margin.

It is our view that the time has come to move beyond aspirational, flexible rulesets that include deference to individual – and strikingly inconsistent – CCP rulebooks. The cleared market – which now includes both mandated and voluntarily cleared products - requires far more robust controls for optimal functionality and risk mitigation – while still allowing product and market-based flexibility. Ideally, a comprehensive ruleset finely tailored to the clearing of a diverse product set would have preceded the institution of global clearing mandates. And as the experiences of March 2020 clearly demonstrate the impact of a more liberal approach, it is now time for the Supervisory Authorities to meaningfully upgrade and strengthen the applicable ruleset for a more resilient clearing market.

We take a sober view of the experiences of March 2020. For while it is true that cleared markets functioned without widespread defaults, the sudden dramatic increases in IM – while reflecting the increase in risk – demonstrated the need to examine margin practices generally and made abundantly clear the toll such sudden, dramatic increases can have on overall market liquidity. And while overall IM levels rose, IM levels for certain products shot up more than 100% seemingly overnight. It was this sudden dramatic shift which was a challenge to digest and impossible to predict and to manage for given the limited transparency into CCP margin practices. The Supervisory Authorities would do well to evaluate the impact on IM levels not just for portfolios, but also on IM breaches at the contract level.

It is also an interesting counterpoint that in the non-cleared market – which is far less standardized and liquid than the cleared market – margin increases during March 2020 were muted. We attribute this to the use of the globally consistent, and relatively conservative, ISDA SIMM margin model, which in 2022 will be rolled out to the buy-side from its initial use by major dealers.

This is an especially important point to call out, that in the more standardized and liquid part of the market – with many products now mandated to be centrally cleared – the individual CCP's inconsistent and far less transparent approaches to margin demonstrated far more volatility compared to the non-cleared market. Volatility to a degree that presented a challenge for the available market liquidity to absorb. While at the same time, in the less standardized and less liquid non-cleared market – where every Intermediary and client is individually responsible for assessing and managing risk - the globally consistent use of the ISDA SIMM margin model among major dealers in March 2020 served to mute margin volatility in its most challenging test.

And while it is fair to note that some clients may have struggled to quickly identify the liquid resources needed to meet the volatile IM calls for their centrally-cleared products, a focus on client liquidity is inappropriate as any such liquidity challenges resulted from the CCP margin practices associated with their relatively standardized and liquid cleared products.

Given the experiences of March 2020, we firmly believe that going forward the Supervisory Authorities must expand their remit beyond CCP resiliency to the impact of CCP practices in the context of the broader market. In March 2020, it was not just about whether IM levels had adequate anti-procyclicality controls, but given the demonstrated gaps in controls, transparency, and governance, problems in cleared markets exacerbated liquidity issues across the broader global markets for participants well beyond clearing.

SIFMA AMG is gratified that the Supervisory Authorities have made CCP margin practices a focus for 2022, and we commit to work together so that going forward, the margin practices for centrally cleared standardized, liquid products benefit from the experiences of March 2020 and become far more resilient for the future.

In terms of the six areas identified by the Supervisory Authorities for potential future work, SIFMA AMG generally supports increasing transparency in centrally cleared markets, identifying gaps in regulatory reporting, streamlining variation margin ("**VM**") processes, and evaluating the responsiveness of CCP IM models to market stresses. For the reasons set forth below, SIFMA AMG feels that evaluating Intermediary or client liquidity should be a much lower priority with the appropriate focus instead being on CCP margin model robustness, transparency, and governance. And as non-centrally cleared markets experienced significantly less margin volatility, perhaps attention should be applied to determine what worked well and what lessons can be learned and applied to cleared markets.

II. Executive Summary:

A. **The Report Accurately Reflects Key Market Events Requiring Holistic Reforms.** IM for cleared products increased significantly, while non-cleared products exhibited less IM volatility. Attention to CCP margin practices should be a part of a comprehensive upgrade to rulesets relating to CCP capital, transparency and governance, and planning for recovery and resolution.

B. **There Is An Urgent Need For Reform For Cleared Margin Practices.** The volatility in cleared IM exacerbated stresses in market liquidity generally.
C. **Margin Procyclicality Requires A Globally Consistent Regulatory Approach**. Anti-procyclicality measures require a globally consistent framework which can be tailored for specific products and markets.
D. **Rules Enhancing Margin Transparency and Governance Can Mitigate Margin Volatility.** Through greater transparency and governance, CCP margin models can be enhanced, and Intermediaries and clients can better forecast and prepare for margin needs.
E. **Liquidity Preparedness Can Be Assessed After Cleared Margin Practices Are Reformed.** Preparedness for IM volatility can be significantly enhanced by requiring CCPs to provide greater transparency and governance into margin models.
F. **Evaluate The Need To Close Data Gaps From CCPs and Intermediaries.** Greater data transparency - both in terms of content and timeliness – will help to make cleared markets more resilient.
G. **Margin Process Improvements Can Mitigate Liquidity and Settlement Risk.** A more balanced approach to VM movements, where gains and losses are distributed between CCPs and Intermediaries in a more balanced manner could improve liquidity in the cleared market.
H. **CCP IM Models Should Comply With Globally Consistent Transparency, Governance, and Anti-Procyclicality Requirements.** While individual products and markets may require nuanced treatment, global cleared markets would benefit greatly from enhanced transparency, governance and anti-procyclicality requirements.
I. **IM Models for Non-Centrally Cleared Products Benefit from Collaborative Development and Demonstrated Effectiveness.** The development of ISDA SIMM is a successful example of effective global collaboration between regulators, dealers, and clients.
J. **Holistic Global Regulatory Reforms Are Needed in Centrally-Cleared Markets.** More work is required on a comprehensive approach to enhance CCP resiliency and better prepare for CCP recovery and resolution, including also addressing criteria for cleared products; CCP capital; default fund structure, sizing, and management; enhanced transparency and governance; enhanced disclosure, back-testing, and stress-testing; limits on emergency powers; and a comprehensive and transparent resolution plan.

III. Responses to Questions

A. The Report Accurately Reflects Key Market Events Requiring Holistic Reforms.

1. **Does the report accurately describe the key market events of the Covid-related period of stress from February to April 2020 and its effects on the magnitude and frequency of the calculation and payment of margin in centrally and non-centrally cleared markets? If not, in what ways are the descriptions not fully representative of the events? Are there any other important events or effects missing? If so, please provide any information or data that are relevant to the missing events or effects to the extent feasible.**

SIFMA AMG applauds the Supervisory Authorities for the data-driven analysis which produced several incontrovertible findings including:

i. Margin for cleared products generally experienced significant volatility in March 2020,
ii. Margin for non-cleared products generally experienced far less volatility, and
iii. Margin practices for cleared products require detailed analysis to inform potential regulatory reform.

Our members have long sought regulatory reform to enhance the resiliency of cleared markets. Especially as clearing is mandated for the most standardized and liquid products, it is imperative that the cleared eco-system is robust for products that are both mandated and voluntarily cleared. Our members strongly believe that as clearing was viewed to be the solution for the issues associated with derivatives in the global financial crisis, global regulators need to ensure that the infrastructure to which the market has been driven is as comprehensively strong as possible.

We believe March 2020 uncovered systemic risks in the cleared eco-system. Looking back, the issues presented in March 2020 are the same issues market participants have raised repeatedly during the past ten years. Namely, CCP inconsistencies in policies and practices, inadequate skin-in-the-game and committed capital, and identified weaknesses related to transparency and governance raise unacceptable levels of systemic risk.

And while we have supported the transition of the market to clearing, the clearing infrastructure remains vulnerable to the risk associated with the much broader product scope and lesser product liquidity of even the more standard, liquid derivatives now mandated to be cleared.

SIFMA AMG agrees with the findings of the Supervisory Authorities that the increases in initial margin observed in March 2020 owed more to weaknesses in CCP margin modeling than to client trading needs or overall market issues. And we will emphatically state that we are not advocating for margin levels to be lower than the associated levels of risk. However, we firmly believe that the steep increases experienced in March 2020 would have been muted had CCP margin modeling been more robust prior to March. Our belief is based on the data which demonstrates that margin for less standardized and less liquid non-cleared derivatives was relatively stable, and for CCPs subject to anti-procyclicality rules, the magnitude of the margin increase was notably muted.

In terms of overall regulatory reform needed with respect to CCPs, we would like to highlight the following recommendations long advocated by our membership as part of a comprehensive approach to enhance CCP resiliency and better prepare for CCP recovery and resolution:

i. tightening the controls associated with criteria for cleared products;
ii. requiring a more robust and comprehensive framework for CCP capital; and default fund structure, sizing, and management;
iii. enhancing CCP transparency and governance with respect to products, margin, capital, and non-default risk;
iv. requiring more thorough CCP disclosure, back-testing, and stress-testing;

v. setting clear limits on CCP emergency powers; and
vi. requiring a comprehensive and transparent plan for CCP recovery and resolution.

In terms of the scope of the Report, our members strongly support action to be taken by the Supervisory Authorities toward the following goals:

i. develop robust and consistent global standards to address excessive margin procyclicality,
ii. establish an effective approach to transparency and governance associated with CCP margin policies and practices,
iii. require CCPs to provide effective tools for Intermediaries and clients to forecast, and thereby plan for, future margin requirements, and
iv. more thoroughly supervising CCP margin practices to evaluate test results, consider the relevance of margin breaches, and assess the cause of inconsistencies in margin requirements set by different CCPs for similar products.

Additional issues for which our members believe attention is required include considering the impact of ad-hoc IM calls within overall margin requirements. While ad-hoc intra-day calls for IM may be required in extreme circumstances, it is our strong preference that more effective margin practices will mitigate the need for such calls as we believe they can exacerbate market stresses and worsen liquidity issues. In addition, the Supervisory Authorities should analyze the prevalence of margin breaches – when margin levels prove inadequate to address market moves. Margin breaches are clear indicators of issues in CCP margin models. While margin models cannot be foolproof, consistent breaches, either at the portfolio or contract level, may indicate specific problems to be addressed.

B. There Is An Urgent Need For Reform For Cleared Margin Practices.

2. Does the report draw appropriate conclusions from the presented observations and analysis of the various aspects of centrally and non-centrally cleared margin during the 2020 stress period? If not, in what cases do you feel the conclusions are not justified by the included analysis? Are there any areas or specific topics of analysis you consider to be missing? If so, please provide any information or data that are relevant to the extent feasible. Please set out your views across the following sections:

a. The drivers of margin calls during the period of market stress covered by the report.

SIFMA AMG generally finds the conclusions reached by the Supervisory Authorities as well supported by the analysis of the data and member experience. As noted previously, while market volatility appropriately results in calls for more margin – with nuanced needs depending on the relevant product and market – core CCP margin models drove the spike in required margin rather than client trading activity or margin add-ons targeting liquidity or concentration risk.

By isolating the source of the margin increases to the core CCP margin models, a clear analysis can be performed to assess what worked and what needs improvement.

b. The current level of transparency in margin practices by CCPs and intermediaries.

Again, SIFMA AMG agrees with the findings that transparency into CCP margin practices is both inconsistent across CCPs and largely inadequate for use as a predictive tool. Our members have been working with CCPs and Intermediaries to drive voluntary improvements toward greater transparency for several years. The proposals we have made to the CCPs include both data elements we need to assess future IM requirements as well as timeliness issues as there is a significant lag in the data we receive, thus compromising its utility. The general reluctance of CCPs to provide substantive enhancements is a compelling argument for stronger regulatory requirements.

We believe the divergent approaches taken by CCPs in different jurisdictions also calls for a more comprehensive and globally consistent regulatory approach. While a degree of regional divergence exists in cleared markets, many of the CCPs compete for clearing of the same or similar products. Especially as clearing for many of these products is mandated, the divergence in margin practices across CCPs with respect to the same or similar products is not consistent with a resilient market. Such divergence is suggestive that in the absence of clear standards, there is the risk that competitive drivers could influence the setting of IM leading to a race to the bottom. While lower IM levels may serve as an incentive to clearing generally, artificially low IM levels leave the system exposed in times of stress – such as that experienced in March 2020.

In addition to the need for greater transparency into CCP margin practices, and the availability of effective predictive tools to forecast margin needs, SIFMA AMG members believe that by enhancing CCP governance practices, ongoing improvements in margin and other risk practices can be achieved. Existing CCP risk committees are inadequate both in terms of membership and independence and should be supplemented by a requirement for the solicitation of independent and thorough Intermediary and client input. Such input should be required to be shared with regulators to help inform regulatory oversight and any approvals of CCP practices.

c. The preparedness of intermediaries and clients for meeting the increased margin calls seen during the period of market stress covered by the report.

It is important to note that SIFMA AMG believes an assessment of client preparedness for margin calls is relevant, but only as an indication of whether CCP margin modeling is resilient, transparent, and predictable. We believe IM calls are meant to reflect the risk associated with a position or portfolio, and the ability to meet calls for IM is a proxy for whether a client can execute a particular position.

March 2020 plainly demonstrated that in the cleared markets, IM levels had been set too low so that when volatility increased, the sudden spike in IM presented challenges for some clients to digest, especially as overall market liquidity had been so compromised. And particularly as IM levels in the less standardized, less liquid uncleared markets stayed relatively stable in the same period, CCP margin methodology has been proven to be a flawed tool to address future risk.

Asset managers make every effort to identify risk, strategize how to mitigate risk, and deploy dynamic approaches to achieve preferable outcomes for clients. The reason asset managers have been so engaged on margin issues with CCPs and Intermediaries for many years is to address the perceived gap in our ability to understand, influence, and meet future margin needs. Absent full transparency and effective governance, our ability to effectively manage the risk of volatile margin needs is significantly compromised. With enhanced transparency and governance, we can anticipate and prepare for margin needs in crisis situations and focus trading activity on market volatility and opportunities.

An indirect benefit of a robust, transparent, and controlled margin methodology is that client positions can be more effectively sized to the risk that client resources can support. If IM is set too low, positions can be cleared which might not otherwise have been cleared if margin had been right-sized. And while we are not advocating for excessive IM, we recognize that for market resilience, CCP margin models must be required to apply anti-procyclicality tools appropriate for specific products and markets.

If the Supervisory Authorities intend to investigate client liquidity, we urge such an effort to follow regulatory reform related to margin methodology, transparency, and governance as we believe that client liquidity should not be assessed until it is clear that margin reflects the actual risk presented by positions and portfolios and there are robust tools to forecast margin against future scenarios.

d. The relationship between margin demands and other liquidity demands during the period February–April 2020.

SIFMA AMG believes that the spikes in IM experienced in March 2020 exacerbated broader market liquidity issues. And it is our perception that central bank intervention was required to support liquidity at the most precarious moment for the market.

As the Supervisory Authorities evaluate the various causes of market illiquidity, we are pleased that margin volatility in the cleared markets is a part of the evaluation. And as CCP margin methodologies, transparency, and governance present the compelling need for reform, we intend to collaborate on efforts to refine and improve the existing regulatory regime to mitigate the ongoing risk that margin for cleared markets could negatively impact market liquidity going forward.

C. Margin Procyclicality Requires A Globally Consistent Regulatory Approach.

3. Do you agree with the proposals for further international work regarding good practices, metrics and disclosures concerning procyclicality in CCP IM models? Are there other aspects of CCP IM where additional disclosures should be prioritized for further work?

SIFMA AMG wants to emphasize that good practices, metrics, and disclosures must be embodied in effective baseline anti-procyclicality ("**APC**") requirements tailored for products and markets, with such APC tools required to be reviewed and adjusted as conditions require. While existing APC requirements are a start, they are inconsistently applied and have flaws that minimize their effectiveness. It is important that the flaws in the existing required APC controls are examined to better inform the development of effective APC controls, tailored to products and markets, for deployment as a consistent framework of rules globally.

And while it is clear that IM margin levels in February 2020 reflected minimal APC protections, and we accept that more robust APC requirements may lead to higher IM requirements for some products in some markets, the Supervisory Authorities must strike a balance between IM levels that adequately address risks, and IM levels so high that they disincentivize trading and clearing.

While most CCPs already have APC measures in place, in response to the CPMI-IOSCO Principles for Financial Market Infrastructures ("**PFMIs**") recommendations, the experiences of March 2020 make it abundantly clear these measures are inadequate – either in concept or in application. And particularly in light of the relatively muted IM volatility demonstrated in the less standardized and less liquid non-cleared market; it is plain that more effective APC controls are not only possible but have proven demonstrated effectiveness. SIFMA AMG calls on the Supervisory Authorities to distill the experiences gained in March 2020 to develop and deploy through new and revised rulesets effective APC measure to protect cleared markets – and by extension, all markets – going forward.

It is important to start by acknowledging that the European Markets and Infrastructure Regulation establishes APC requirements for CCPs subject to EU supervision. And while we believe these APC requirements served to mute IM volatility from some EU CCPs, there are opportunities presented both in the design and deployment of the EU APC requirements that can improve their effectiveness going forward. For example, while we support APC requirements tailored by product and market, the EU APC options leave too much discretion to the CCP in their application and implementation. We do not believe such broad discretion is advisable going forward and instead there should be detailed tailored requirements mandated for application based on products and markets.

In addition, there are a number of specific improvements needed in the design of the EU APC requirements:

- **Establish a Threshold Procyclicality**: Consider the merit in assessing the degree of acceptable procyclicality, which anti-procyclicality measures are then designed to contain.
- **Justify the Approach**: CCPs should be required to report the rationale for applying a specific approach for specific products and markets, especially if the applied approach does not yield the most conservative outcome – to dispel the suggestion of competitive drivers. And SIFMA AMG recognizes the importance of avoiding excessive IM requirements as a disincentive to clearing.

- **Enhance 25% Buffer**: The 25% erodible buffer needs to be reconsidered in light of experience. In our view it is not large enough for certain products and markets. CCPs must be required to comply with requirements to impose it in periods of low volatility and reduce it in periods of high volatility.
- **Enhance 10-year Lookback Floor**: The 10-year lookback is clearly flawed as data from the 2008 financial crisis was effectively excluded over the year preceding March 2020. And while some EU CCPs voluntarily added such data into their APC measures, we believe cleared markets cannot rely on such voluntary best practices going forward. Where extreme market events fall outside of a look-back, they must still factor into APC measures.

Clients also need a far greater degree of transparency into the design and usage of APC measures. For this reason, we recommend the Supervisory Authorities require CCP disclosure of the following:

- CCP risk appetite for procyclicality generally, beyond which their models are designed to mitigate, and the CCP's performance relative to their procyclicality appetite,
- The APC tools applied in the CCP's IM methodology, with any differences depending on product or market, so that clients can predict IM calls during stress periods (e.g., are margin levels model driven vs. floor driven, and to what degree margin buffers are being used),
- Confirmation of any adjustments made to refine the application of the APC tools, such as volatility floors or scaling schemes (decay factor),
- Reporting on a CCP's analysis of margin reactivity to extreme volatility scenarios (e.g., 10%, 20% or 30% increase in volatility) for each product and market cleared, and
- Confirm details as to CCP calculation of base IM and use of any margin add-ons.

SIFMA AMG strongly believes the quantitative disclosures should provide a much more granular level of detail on how IM models performed. Such disclosures should be provided at least monthly, if not weekly, so that clients have a clearer window into their likely IM exposure in such scenarios.

D. Rules Enhancing Margin Transparency and Governance Can Mitigate Margin Volatility

4. Does the report identify appropriate aspects of transparency in centrally and non-centrally cleared markets for further international work, including identifying data gaps, enhancing disclosures to clearing members and increasing margin model transparency?

a. What specific areas of transparency would be most helpful? What (if any) are the barriers to providing those points of transparency?

b. Should any other areas of increased transparency be considered?

SIFMA AMG has long been working with the CCP trade association, CCP12, to voluntarily close perceived data gaps that could greatly help to assess IM and other risks and could enable more of an apples-to-apples comparison between the robustness of each CCP's practices. While the work has been ongoing for more than two years, CCPs have expressed a reluctance to make meaningful changes absent regulatory direction. For this reason, SIFMA AMG calls on the Supervisory Authorities to strengthen the existing ruleset for CCP compliance. Particularly if client liquidity for IM is of a concern, the Supervisory Authorities should require far greater transparency to afford clients the opportunity to predict and manage IM requirements in stressed markets, and thereby mitigate potential liquidity issues. Improvements in transparency should focus on the following areas:

- **Risk Methodologies**: Clients need consistent, accurate, and timely information on CCP risk methodologies–i.e., details on CCPs' margin framework, back testing and stress testing practices and results.
- **Margin Add-ons**: Clients need consistent, accurate, and timely information with respect to a CCP's margin add-ons, situations where they are applied, and how they may impact IM calls. Currently, the use of add-ons is opaque, both as to how they operate and whether they apply across the board or to specific clients, products, and/or markets.
- **Back-Testing and Margin Breaches**: Clients need consistent, accurate, and timely information with respect to a back testing results and margin breach information at both the account level and the contract level. As to margin breaches, this should include the frequency of margin breaches, the largest relative margin breach, and they average relative margin breach, calculated against the same baseline, such as 1-day profit/loss, for comparability across CCPs with different margin periods of risk.

To address CCP concerns as to the confidentiality of some of this information, an answer would be to release it to clients using secure portals with limited access.

An additional area to consider, beyond the specific CCP disclosures, is to address the inability of Intermediaries to confirm to clients to which CCP client IM is being transferred. SIFMA members have consistently expressed concerns that the trading and collateral infrastructure and workflows attribute IM to an Intermediary (and not to a CCP) as the Intermediaries function as agent for the CCP - often on an omnibus basis. We have struggled to achieve a voluntary solution to this issue and believe this merits regulatory involvement absent progress. Ideally, CCPs, Intermediaries and clients would produce data sharing protocols so clients can have an accurate accounting of their exposure to each CCP and default waterfall.

E. Liquidity Preparedness Can Be Assessed After Cleared Margin Practices Are Reformed.

5. Do you agree with the proposals for further international work to enhance liquidity preparedness in the NBFI sector, including the development of appropriate liquidity metrics and disclosures, analysis of liquidity provision robustness and expanded information sharing between intermediaries and clients? Have the proposals identified all key aspects of NBFI sector liquidity preparedness which should be included?

SIFMA AMG believes attention to liquidity preparedness is at best premature and possibly unnecessary. As clients, we view IM requirements to inform our liquidity preparedness generally for cleared markets. For us, the answer to preparedness can be found in robust, transparent IM practices in which we have confidence and with which we can accurately predict our future exposure. CCPs have long pushed back on providing greater transparency citing legal constraints, proprietary information, or operational impediments. If clearing is mandated, and liquidity preparedness is a concern, the first step is to strengthen existing CCP margin practices and to provide market participants full transparency so clients can accurately plan for future exposures.

Relying on intermediaries as conduits for such transparency is not an effective solution. Firstly, Intermediaries have little more transparency than clients on key metrics. Secondly, Intermediaries are often bound by non-disclosure agreements and cannot disclose certain CCP information to clients. CCPs, as owners of the information, are best placed to control disclosure requirements as they relate to clients. Certainly, Intermediaries should be fully transparent as to credit-related and other add-ons they apply to IM for clients. But as Intermediaries start with CCP IM requirements, they are not well-positioned to convey the key elements of CCP calculations.

It is clear the liquidity issues confronted in cleared markets in March 2020 were serious, but SIFMA AMG believes those issues could have been significantly ameliorated had CCP margin practices been more robust, with effective APC measures. In addition, had transparency into CCP margin methodologies been more robust, clients could better forecast, and thereby plan for, liquidity needs related to future IM requirements.

F. Evaluate The Need To Close Data Gaps From CCPs and Intermediaries.

6. Do you agree with the proposals for further international work to evaluate data gaps in regulatory reporting by banks and non-banks? Are there particular data gaps you would identify as being of material importance? If so, please provide any supporting information and data to the extent feasible.

In terms of data transparency and capital requirements, SIFMA AMG believes that CCPs are the last major component of global financial markets where significant work remains. And especially as for some products clearing is mandated to mitigate systemic risk, and March 2020 uncovered extreme margin volatility in cleared markets, Supervisory Authorities should direct attention to the data gaps and regulatory reporting, among may other issues, related to CCPs.

G. Margin Process Improvements Can Mitigate Liquidity and Settlement Risk.

7. Does the report identify appropriate proposals for further international streamline VM processes in centrally and non-centrally cleared markets? Should any other aspects of VM processes be included in this work?

One area for additional consideration is the impact of the delayed return of VM after settlement in the non-centrally cleared markets. In these markets, VM is returned one (1) day after the settlement date of the trade. During March 2020, the inability of institutional investors to use the anticipated VM as a source of funding to settle trades raised significant liquidity and settlement complications. The ability to fund trade settlement with the anticipated VM returns should be considered as a much-needed market structure improvement particularly during times of high market volatility.

Supervisory Authorities should reconsider the high degree of flexibility CCPs are afforded with respect to intra-day IM calls. SIFMA AMG members believe the use of such calls can and should be significantly limited as CCPs are required to tighten margin practices and provide greater transparency into margin methodologies. If IM models are required to be robust, intraday IM calls should be the exception, not the norm, for existing portfolio risk. Supervisory Authorities should evaluate the frequency of CCP intraday IM calls as being indicative of gaps in a CCP's margin framework, or that it has a relatively high tolerance for risk.

H. CCP IM Models Should Comply With Globally Consistent Transparency, Governance, and Anti-Procyclicality Requirements.

8. Does the report identify appropriate proposals for further international work on the degree and nature of the responsiveness of CCP IM models to market stress? Should any other aspects of CCP margin models be included in this initiative?

As noted throughout our response, SIFMA AMG strongly believes that CCP IM model performance must be fully evaluated and the Supervisory Authorities should recommend a comprehensive list of enhancements to mitigate the risk presented in March 2020. Liquidity stresses in the cleared markets arose largely due to increases in IM calls which is clear evidence that CCP APC practices are inadequate. Clients were unable to predict and plan for IM increases due to the gaps in the transparency of CCPs IM methodologies.

Areas for further evaluation and rulemaking include: IM margin lookback periods, identification and inclusion of stress periods, determining appropriate decay factors, significantly upgrading APC measures, and evaluating the appropriateness of margin period of risk – each in the context of individual cleared products and markets.

As noted previously, most CCPs already have APC measures in place, as recommended by the CPMI-IOSCO Principles for Financial Market Infrastructures (PFMIs). But it is clear that these largely voluntary measures are flawed. During the COVID period of volatility, margins rose higher relative to pre-crisis rates than they did during the financial crisis of 2008 and as markets recovered, they have fallen faster. And although the European Markets and Infrastructure Regulation sets anti-procyclicality requirements for CCPs subject to EU supervision, the increases in margin rates at some EU CCPs demonstrates that even these were not adequate to sufficiently address procyclicality.

We want to highlight a finding in the Consultative Report in Section 3.2.3 that shows the reactivity of IM models differed quite substantially among CCPs. There was an extreme divergence in the reactivity of IM models in exchange-traded derivatives where two CCPs experienced a 300% change in volatility, but their IM models produced dissimilar changes to IM rate – one at 100% the other at 250%. This variability in model outcomes demonstrates the need for stricter controls and we call on the Supervisory Authorities to expand the regulatory requirements so that CCPs have clear direction so that their IM models generally respond consistently to similar inputs for the same products in the same markets facing the same risk.

I. IM Models for Non-Centrally Cleared Products Benefit from Collaborative Development and Demonstrated Effectiveness.

9. Do you agree with the proposals in the report to evaluate the degree and nature of responsiveness of non-centrally cleared IM models to market stresses, remediation of IM shortfalls and the level of disclosure of non-centrally cleared IM model performance? Should any other aspects of non-centrally cleared IM models be included in this initiative?

SIFMA AMG members were heartened to see the muted volatility of IM requirements in the non-cleared space. Especially as many of our members are preparing for the September 2022 compliance with global IM mandates, it is gratifying that the experience of large dealers in the March 2022 period was positive. Frankly, we expect this was the case as the large dealers have already implemented the ISDA SIMM methodology which was developed by market participants and vetted by regulators.

And it is this more collaborative, transparent method which has produced a more resilient margin tool, compared to the highly individualized and largely flexible approach currently deployed by CCPs in cleared markets. While we are not advocating for ISDA SIMM to be the market standard for cleared trades, we believe the learnings from the development of ISDA SIMM should be embraced by the Supervisory Authorities as they consider next steps in requiring a more robust and transparent margin model for cleared markets.

J. Holistic Global Regulatory Reforms Are Needed in Centrally Cleared Markets

10. Are there any other important aspects not covered by the report which should also be prioritized for further international work or policy development?

As noted in the response to the first question, SIFMA AMG members believe that more work is required on recommendations as to a comprehensive approach to enhance CCP resiliency and better prepare for CCP recovery and resolution, including also addressing criteria for cleared products; CCP capital; default fund structure, sizing, and management; enhanced transparency and governance; enhanced disclosure, back-testing, and stress-testing; limits on emergency powers; and a comprehensive and transparent resolution plan.

IM volatility in March 2020 makes it ripe for focus by the Supervisory Authorities, but we strongly believe significant attention must be applied across all elements of the clearing ecosystem. And this is especially true given the clearing mandates put into place to mitigate systemic risk. Again, ideally, enhanced rules for CCPs would have preceded the implementation of the clearing mandate, but given the experiences of March 2020, we are pleased this critical aspect of global financial markets will receive a renewed focus by the Supervisory Authorities.

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AMG looks forward to participating in future discussions on margin practices and CCP risk and resiliency and is available to discuss these comments. Should you have any questions, please contact Lindsey Keljo at 202-962-7312 or lkeljo@sifma.org, or William Thum at 202-962-7381 or bthum@sifma.org.

Respectfully submitted,

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