

# Deutsche Börse Group Response

to  
the BCBS, CPMI, IOSCO consultative report on  
the review of margining practices

Frankfurt, 12 January 2022

## A) Introductory Remarks

Deutsche Börse Group (DBG), in particular its central counterparties (CCPs) Eurex Clearing and ECC, appreciates the opportunity to provide feedback to the consultative report on the review of margining practices by the joint working group of the BCBS, CPMI and IOSCO.

Eurex Clearing AG is an EMIR authorized CCP and provides clearing services for cash and derivatives markets in listed and over-the-counter (OTC) financial instruments. European Commodity Clearing AG (ECC) is an EMIR authorized central counterparty (CCP) and provides clearing services for spot and derivative commodity contracts.

DBG appreciated the joint working group's assessment of margining practices both in centrally cleared and non-centrally cleared markets. While we find the report appropriately describes the level of transparency, responsiveness, and performance of CCP margin models, the report's analysis of non-centrally cleared markets appears limited in depth. We believe this to be a consequence of the relative lack of available data in the non-centrally cleared space compared to cleared markets and would agree with the joint working group's findings that further policy work should ensure sufficient data for comprehensive analysis and better understanding and transparency of uncleared margin models' performance and market participants' preparedness (for details please see our answers to questions 1, 4b, 5, 6 and 9).

We believe CCPs have performed quite robustly in the recent period of unprecedented volatility induced by Covid-19, proving their resilience and the effectiveness of the G20 reforms. Nevertheless, the increase in margins observed during last year's market turmoil has generated renewed attention into liquidity preparedness, transparency of margin model methodologies and anti-procyclicality measures. While margin calls increased on DBG's systems as well as a result of market movements, margin models and anti-procyclicality measures (APCs) foreseen in EU regulation and applied by EU CCPs have worked as intended, smoothing the increase. We can also confirm that our Clearing Members had no issues meeting any additional margin requirements (for details, please refer to our answers to questions 2a and c).

Further, CCPs already provide a high level of transparency through various channels as described in the report and further explored in the questionnaire below (please refer to our answers to questions 1, 2b and 4a for details). Almost exclusively covering CCP margining practices, the report lacks an in-depth analysis of any transparency issues in relation to the client-intermediary relationship.

Nevertheless, we acknowledge the importance of transparency of margining practices and procedures for Clearing Members and the clients to be able to predict liquidity needs under different market conditions. DBG has therefore picked up market participants' suggestions for improvements after the Covid-19 stress period and has been participating in industry discussions, constantly enhancing existing disclosures (please see our answers to questions 1 and 2b for details). We are committed to further increase transparency and we would encourage other stakeholders to follow this principle as well. We consider the joint working group's report as a useful inspiration and contribution to such discussions.

Importantly, the joint working group's report rightly alludes to the diversity of model choices for CCPs depending on asset classes cleared and their regulatory environment, the variety of anti-procyclicality control tools available and used by CCPs as well as the variety of factors that affect the size of margin calls. Taking into account these necessary varieties, we would support ensuring a data-driven, outcomes-based approach to anti-procyclicality on a global level. As per our answer to questions 3 and 4, we believe that further work in measuring procyclicality, defining policy

goals in the context of those measures and increasing transparency regarding such measures would be useful with a view to ensure aligned and comparable outcomes on a global level, building on regular disclosures of agreed procyclicality metrics and a CCP framework that sets and annually reviews target values for those metrics.

Lastly, we would also like to highlight the importance of the joint working group's further work in this area with a view to ensure international convergence as much as possible. We would also deem this relevant for the parallel work done by EU authorities assessing the effectiveness of existing anti-procyclicality measures in the EU and would encourage the international standard setting bodies and local authorities to coordinate their current work to the extent possible.

## B) Detailed comments to the questionnaire

- 1. Does the report accurately describe the key market events of the Covid-19 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.**

While the report aims at covering both centrally and non-centrally cleared markets, DBG believes that the joint working group's report accurately describes the key markets events and impacts of the Covid-19 induced market stress for centrally cleared markets. However, while the report provides comprehensive analysis of CCP data, the analysis of uncleared markets appears limited, providing only cursory coverage of non-centrally cleared markets. This is understandable given relative lack of transparency compared with the available data of cleared markets. However, for the few data points available, the report appears to stay away from more in-depth analyses. The large mismatch between both size and variability of regulatory vs discretionary margin calls provided by Acadia was not considered either in terms of efficacy of non-cleared margin rules in achieving its objectives nor in the context of procyclicality of a component where market participants can more quickly reflect market volatility.

We therefore believe that one of the key findings of the joint working group's report is that we need more available data in the uncleared space to provide a comprehensive analysis.

The market turmoil caused by Covid-19 in 2020 has intensified the discussion about increasing transparency on CCPs' risk management and margin methodologies. While CCPs already provide a high level of transparency through various channels, Eurex Clearing for example has picked up market participants' suggestions for additional metrics on anti-procyclicality to facilitate the industry discussion on margin procyclicality during the peak of the pandemic. For example, Eurex Clearing has decided to publish an additional data set with product level back-testing results in order to allow for a more comprehensible interpretation of margin coverage and better analysis of the procyclicality properties of the margin model.

CCPs globally have continued to demonstrate their commitment to enhance existing disclosures by participating in industry discussions around transparency. For example, in a constructive dialogue with Clearing Members and clients, the CCP industry has been working successfully to standardize and improve the disclosures and PQDs since their introduction. While we are committed to further increase transparency and would agree that the PQDs

could be published more frequently and that additional procyclicality metrics could be disclosed by CCPs to ensure even more predictability for market participants, we would encourage other stakeholders to follow this principle as well. We would welcome if the joint working group's further work would inspire a general increase in reporting and transparency.

In this context, we would like to highlight as well that from our perspective issues relating to transparency of non-centrally cleared derivatives did not receive much coverage in the report – chapter 4 covering issues of transparency of margining practices almost exclusively covered CCP margining practices (from various perspectives) but brushed aside concerns over transparency in a client-clearer relationship. Accordingly, chapter 3.3 appears to be lacking in depth and stands in contrast to the stellar analysis of procyclicality of CCP margins.

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.**

DBG acknowledges a strong increase in intraday margin calls during the stressed period in March 2020. At Eurex Clearing for example, the volumes of intraday margin calls increased tenfold while the number tripled compared to 2019's averages. There were no unscheduled margin parameter updates. The majority of intraday margin calls were driven by strong market movement – Variation Margin collection for ETD products. Eurex Clearing's Initial Margin model, Prisma, incorporates new market information automatically and smoothly transitions to a new volatility environment. The algorithmic nature of the margin model results in predictability of margin response to a volatility scenario. The applied anti-procyclicality measures (APCs) worked in a way that the Initial Margin increased gradually and to a much lesser extent than the volatility. Moreover, we confirm that Clearing Members had no issues meeting the intraday margin calls but that overcollateralization during the stressed period in March 2020 plummeted before it returned to pre-stress levels in April 2020. This behavior is expected, and it served as an additional buffer.

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

While we generally agree with the CCPs' perspective in chapter 4.1 of the report, DBG acknowledges the importance of transparency across margining practices and procedures for intraday margin calls both towards Clearing Members and the clients which were also expressed in the following chapters to be able to predict liquidity needs under different market conditions.

From our point of view, however, it should be stressed that scheduled margin calls, although perfectly predictable, do not represent a superior solution, especially during the volatile times as there is a trade-off between predictability and uncovered CCP exposures. The report compares mainly ad hoc vs. scheduled margin calls leaving out the concept of event-driven risk framework – meaning margin calls are not performed at the specific hour but the Clearing Member exposure is monitored throughout the entire trading day and acted upon in case the operational thresholds according to the CCP risk appetite are breached.

With regard to intermediaries and clients' feedback to data and tools made available by CCPs to allow for predictability of margin calls/developments in chapter 4.2 and 4.3, we would like to highlight as well that both the margin calculation methodology and the thresholds are disclosed for example by Eurex Clearing in detail in a designated portal or webpage. Additionally, both Clearing Members and Disclosed Clients have access to intraday margin reports with 10-minute frequency, which enable them to actively monitor daily exposure and predict future margin calls.

Further, the report correctly points out that several of the CCPs provide margin estimators. It should be noted that in the EU, the regulatory framework for CCPs EMIR requires CCPs to provide such estimators. Both Eurex Clearing and ECC are such CCPs providing a tool not only for Clearing Members and clients to recalculate Initial Margin requirements and simulate the impact of position (or margin parameter) changes but also for the general public to estimate margin requirements for hypothetical portfolios. DBG is therefore supportive of such margin estimators for hypothetical portfolios, whereas we are concerned of the usefulness and feasibility of a simulating tool with what-if/hypothetical scenarios. Please also refer to our answer to question 4a for further information on the margin estimators and our perspective on the effectiveness of hypothetical scenarios vs pre-determined scenarios.

In addition, Eurex Clearing for example, sheds more light on various important aspects of its risk management framework in our 'Pioneering CCP transparency' series. As mentioned in our answer to question 1, in the most recent part of that series Eurex Clearing provided additional insights into several back-testing and procyclicality measures for its key products, allowing market participants to deepen their understanding of margin dynamics.

To conclude, CCPs already provide a high level of transparency of their margining practices through various channels. Nevertheless, DBG is committed to further increase transparency and facilitate market participants' understanding of margining practices and we would encourage other stakeholders to follow this principle as well.

In this context, please also refer to our answer to question 1 regarding the lack of an in depth analysis of transparency issues in the client-intermediary relationship.

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

DBG acknowledges the overall report conclusion that Clearing Members/intermediaries did not have any exceptional operational hurdles to meet the margin calls.

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

No comment.

**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?**

Please also refer to our response to questions 1 and 2b regarding the level of transparency of CCP margin models.

We see existing work as very important for fostering good practices and aiming at global harmonization. We see the need for further development especially in the areas of measuring

procyclicality, defining policy goals in the context of those measures and increasing transparency regarding such measures.

We further recognize that different asset classes or portfolio structures may have different levels of baseline procyclicality (procyclicality before any APC measures are applied). Thus, we see benefit in having an upfront discussion whether the policy goal is to bring margins to a common maximum absolute level of procyclicality or whether the policy goal is for APC measures to eliminate at least a certain proportion of baseline procyclicality. In our view, the latter approach would better accommodate a wide spectrum of asset classes, trading strategies and portfolios.

We would therefore support an approach that would ensure alignment of APC policy outcomes on a global level, building on regular disclosures of agreed procyclicality metrics and a CCP framework that sets and annually reviews target values for those metrics.

In addition, as alluded to in our answer to question 1, we recognize the need of increased transparency of the CCPs to the public about its intraday margin practices including but not limited to how often and at what time the exposures are evaluated and in what circumstances does a CCP issue intraday margin calls (whether following a specific schedule or event-driven by uncollateralized exposures).

**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?**

Please also refer to our response to question 1 regarding the level of transparency of CCP margin models.

DBG considers that aspects of transparency from a CCP perspective are rightfully detected in the areas of providing data for full margin replication to both Clearing Members and Disclosed clients and providing Margin Calculators for portfolio margin requirement estimation. It should be noted that EU regulation already requires EU CCPs to make margin simulators available.

The report also considers the possibility of a new category of tools to allow for simulation of margins not only for a hypothetical portfolio but also for hypothetical scenarios. These capabilities, while an interesting theoretical consideration, would likely fail to achieve the objective. Margin simulations may involve hundreds of thousands of risk factors. Even if CCPs would come up with a way to inject the hypothetical market data feed, market participants would need to set up such scenarios for each risk factor affecting their portfolios, which may easily scale up. It may also provide only an illusory increase in transparency as such transparency will only be available to the most sophisticated of Clearing Members, thus failing those who were identified in the report as being relatively more affected by procyclical margin behaviour, i.e. clients. Importantly, development cost of such a tool allowing hypothetical calculations under so many degrees of freedom would likely increase cost of clearing, as CCPs would seek to pass on the costs on market participants.

A reasonable alternative would be for CCPs to provide simulations how margins for their key products would evolve under a few pre-determined scenarios: some focusing on replay of history like Lehman default or Covid-19 and others tackling hypothetical jumps in market

volatility. These simple disclosures would provide insights into margin model responsiveness under the scenarios which are easy to grasp for a wider audience.

In case of event driven CCPs intraday risk management, the scope of transparency requirement goes beyond the formerly mentioned. Providing intraday margin reports across various levels of reporting and on a 10-minute time frequency gives full transparency into margin developments during the day and possible margin call drivers enforcing the margin call predictability. Secondly, disclosing operational CCP practices such as thresholds for issuing intraday margin calls further supports transparency and predictability. From our point of view, there are no noticeable barriers to providing transparency to Clearing Members and we support any further open discussion in defining key aspects of CCP transparency or facilitating market participants' understanding of CCP margin models.

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

Please refer to our response to questions 1, 5 and 6 regarding the need of more available data in the uncleared space.

5. **Do you agree with the proposals for further international work to enhance liquidity preparedness in the NBFIs 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 NBFIs sector liquidity preparedness which should be included?**

DBG would generally agree, and would consider further work in that direction as a helpful step to ensure more available data in the uncleared space that would allow for a better understanding of market participants' liquidity preparedness and level of leverage. The recent example of Archegos illustrates that there is not sufficient information available at this stage, rendering further work in this area useful.

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.**

DBG would generally agree and refer to the answer to question 1 regarding the need for more reporting and transparency in the uncleared space to allow for a comprehensive analysis.

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

DBG acknowledges that intraday margin calls bear an asymmetrical nature. For market participants, it is particularly problematic having offsetting exposures at different CCPs. Funding losses at one CCP without receiving profits from other results in additional liquidity needs. Collateral shortfalls enforced via intraday margin calls have strict timelines, while collateral surpluses can be trapped at CCPs until the next end-of-day processing. There are different approaches to the latter, and we encourage discussions aiming at defining a possible solution space. However, we would like to stress one more point relevant for future

discussions on Variation Margin settlement frequency. It certainly has its drawback for market participants if liquidity is trapped in CCPs until the next day, but on the other hand if CCPs allow, like Eurex Clearing does for example, for intraday variation margin losses to be collateralized in non-cash collateral the intraday liquidity burden can be eased. Passing through variation margin intraday in cash would however abolish any possibility to fund variation margin losses with non-cash collaterals or to net them with other advantageous margin changes. From our point of view, this results in a significantly higher number of transactions and reduces netting effects. Secondly, as variation margin can only be settled in product currency, paying out profits requires also enforcing variation margin losses in possibly illiquid product currencies during the trading day. Thirdly, Eurex Clearing allows for collateral withdrawal intraday within operational cut-off times, which have been extended as far as possible. Lastly, adhering to intraday variation margin payouts would presume scheduled intraday margin call runs which, in our opinion, do not present a superior mode of intraday CCP Risk management as it leaves high exposures for CCPs in between the runs, especially during volatile times.

- 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?**

DBG would like to acknowledge several elements suggested in the report that highlight the diversity of model choices for CCPs which vary depending on asset classes cleared, the variety of anti-procyclicality control tools available and used by CCPs as well as the variety of factors that affect the size of margin calls. Taking into account those varieties, we would see the need for ensuring a data-driven, outcomes-based approach on a global level. As per our answer to question 3, we believe that further work in measuring procyclicality, defining policy goals in the context of those measures and increasing transparency regarding such measures would be useful, building on regular disclosures of agreed procyclicality metrics and a CCP framework that sets and annually reviews target values for those metrics.

- 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?**

DBG would generally agree and would welcome further analysis of non-centrally cleared models as visibility of exposures and of the performance of IM models in the uncleared space remains limited, where anti-procyclicality measures are not applied and the full roll-out of margin requirements has been repeatedly delayed. Please also refer to our response to question 1 regarding the availability of data in the uncleared space and our perspective on the report's analysis of non-centrally cleared IM model performance.

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

DBG would recommend to the joint working group to additionally assess backtesting practices by both centrally cleared and non-centrally cleared models (e.g. the



implementation of the basle traffic light approach, PnL calculation, etc.) considering the impact of backtesting on Initial Margin developments.

## C) Closing Remarks

DBG trusts that our comments are seen as a useful contribution to increase the functioning of margining practices, and remain at the disposal of the BCBS, CPMI and IOSCO for any questions and additional feedback.