18 June, 2024

VIA ELECTRONIC SUBMISSION (fsb@fsb.org)

Re: FSB Consultation report on *Liquidity Preparedness for Margin and Collateral Calls*

The Global Association of Central Counterparties ("CCP Global")[1] is the international association for central counterparties ("CCPs"), representing 42 members who operate over 60 individual CCPs across the Americas, EMEA, and the Asia-Pacific region. CCP Global appreciates the opportunity to respond to the **Consultation report on *Liquidity Preparedness for Margin and Collateral Calls*** [2] ("the Consultation") prepared by the Financial Stability Board ("FSB").

General responses

The Consultation suggests eight cross-sectoral high-level policy recommendations to enhance the liquidity preparedness of non-bank market participants for margin and collateral calls in centrally and non-centrally cleared derivatives and securities markets. The recommendations cover (1) liquidity risk management and governance, (2) stress testing and scenario design, and (3) collateral management practices, focusing on liquidity risks arising from margin and collateral calls during times of stress and applying proportionately to non-bank market participants with material exposures.

There is a crucial need for non-bank market participants to employ appropriate risk management practices and prepare for liquidity in times of stress, which many of them already do today, particularly where they are clearing members ("CMs") of CCPs. Overall, CCP Global supports the high-level policy recommendations, which it believes are generally reasonable and appropriate, considering the differing risk management practices and governance structures of different types of non-bank market participants.

Below, CCP Global provides high-level comments and encourages certain best practices on the following topics relevant to the subject of the Consultation:

1. Use of CCPs' tools and information by market participants
2. Further work on transparency to close the gap in regulatory reporting
3. Evaluation of change in risk profiles by market participants
4. Design of liquidity management framework based on market participants' circumstances

1. Use of CCPs' tools and information by market participants

As mentioned in our detailed response to the BCBS-CPMI-IOSCO Consultative report on *Transparency and responsiveness of initial margin ("IM") in centrally cleared markets – review and policy proposals* ("the BCBS-CPMI-OSCO Consultation"),[3,4] CCPs are strong proponents of transparency in their own practices given its risk management benefits. Accordingly, CCPs have provided significant transparency regarding their risk

[1] Previously known as CCP12.
[2] FSB, Consultation report on Liquidity Preparedness for Margin and Collateral Calls (April 2024), available at Link.
[3] CCP Global, Response to BCBS-CPMI-IOSCO Consultative report on Transparency and responsiveness of initial margin in centrally cleared markets – review and policy proposals (April 2024), available at Link.
[4] BCBS-CPMI-IOSCO, Consultative report on Transparency and responsiveness of initial margin in centrally cleared markets – review and policy proposals (January 2024), available at Link.

management practices through various channels, including margin simulation tools, public qualitative disclosures, and public quantitative disclosures ("PQDs") and related webinars, among other sources. CCPs also maintain open dialogue with CMs and clients (which include non-bank market participants) and respond to their requests on a bilateral basis. These measures, when used by market participants, are effective in facilitating participants' understanding of CCPs' margin calculations and participants' potential future IM requirements. We encourage market participants to use the information and tools already provided by CCPs to understand their IM requirements and prepare for their liquidity needs. A higher level of usage of available information and tools by participants, such as margin simulation tools, will provide important directional insights for CMs and clients.

We would like to reiterate our strong support for increased transparency by CMs to their clients, as proposed in the BCBS-CPMI-IOSCO Consultation. While CCPs have provided substantial transparency to market participants, including to non-bank market participants, CCPs' margin simulation tools for clients should be complementary to other tools and information offered by CMs to clients as client experiences are shaped significantly by the interactions with their CMs. Clients must have a clear understanding of the funding thresholds set by CMs, as exceeding these thresholds may trigger margin calls.

2. Further work on transparency to close the gap in regulatory reporting

In addition, we strongly encourage further efforts to increase transparency from non-bank market participants by reducing the gap that currently exists in required regulatory reporting. This aspect, however, is not covered in the Consultation. As stated in one of the six areas of further work identified in the BCBS-CPMI-IOSCO report on *Review of margining practices,*[5] further international work is proposed to identify gaps in current regulatory data at the jurisdictional level, providing a more comprehensive picture of the preparedness of market participants for margin requirements. CCP Global urges authorities to make concrete improvements in this area. Even if the data is deemed to be non-public, additional regulatory disclosures by or data points from non-bank market participants to regulators could provide authorities with a more comprehensive picture of non-bank market participants' liquidity preparedness and intermediaries' provision of liquidity to them. Ideally, such disclosures would ultimately be available publicly, thereby assisting other market stakeholders in evaluating relevant risks. This area of work is critical to overall financial stability considering the lack of transparency, both in public and to regulators, that has led to challenges for regulators in evaluating the exact dynamics and vulnerabilities of the financial system in critical times of stress. We encourage such work to be done at the international level to avoid data fragmentation and to harmonize a basic standard of reporting requirements across different regimes.

As an example, the FSB's report on *The Financial Stability Aspects of Commodities Markets* identifies a number of data gaps for OTC markets that hamper the assessment of vulnerabilities in the commodities sector and pose challenges for authorities to quantify transmission channels.[6] The exposures of CMs and clients across different derivatives and securities markets, particularly high-volume participants, warrant more transparency from them on their exposures in non-centrally cleared markets, including on a cross-border basis. This information would allow for the assessment of the network of exposures, including the build-up of concentrated positions. Data gaps should be reduced by making relevant data available to

[5] BCBS-CPMI-IOSCO, Review of margining practices (September 2022), available at Link,
[6] FSB, The Financial Stability Aspects of Commodities Markets (February 2023), available at Link.

regulators to inform global authorities where risks may reside or build, in order to support their capacity to oversee financial market stability.

Moreover, we would like to restate the critical importance of increasing transparency in non-centrally cleared markets which currently lack a comparable level of standards for transparency to centrally cleared markets. Non-centrally cleared markets remain opaque, with limited policy recommendations driving incremental improvements. Recommendations looking to enhance transparency in non-centrally cleared space is essential to significantly improve market participants' liquidity preparedness and contribute to overall financial stability.

3. Evaluation of change in risk profiles by market participants

As highlighted in our response to the CPMI-IOSCO Report on *Streamlining variation margin in centrally cleared markets – examples of effective practices ("the VM Response")*,[7] we stress that the essence of CCPs' margin call procedures is to collateralise either losses reflecting current prices or risk exposures of participants, so as to enable and permit on-going active trading and risk transfer while protecting all participants and the financial system. CCPs are keen and eager to ensure that their participants are well informed about their margining procedures, and hence, CCPs generally maintain an open line of communication with their participants. Market participants should also understand the factors that drive the margin requirements which evolve with changing market conditions, along with other factors, such as changes in prices and positions.

It is crucial to highlight that during market turmoil, variation margin ("VM") payments, which are calculated based on the profits and losses of positions and are collected to cover current exposures due to changes in market prices, far outpaced the IM changes determined by the CCPs' margin models. To effectively prepare for liquidity arising from potential margin calls, it is vital that participants conduct their evaluation of how their existing or planned trades, along with their activities in leveraging, may change in value or risk profile. This is of great value for supporting prudent liquidity arrangements, as margin calls are primarily driven by VM that merely reflect the fluctuations in market prices during times of stress.

4. Design of liquidity management framework based on market participants' circumstances

CCP Global generally agrees with the recommendations proposed in the Consultation about encouraging non-bank market participants to enhance their liquidity risk management frameworks. Collateral management to support liquidity preparedness to fulfil margin calls is crucial. Market participants may employ a number of practices to support their liquidity preparedness, including posting excess cash collateral to CCPs (or at the CMs' level where applicable) to meet margin calls. In such an example, the excess collateral on deposit can be used to cover the margin obligation based on the CCPs' practices. As we mentioned in the VM Response, the use of excess collateral to offset the margin obligations may be restricted to certain currencies and assets according to the collateral requirements specified by CCPs, depending on a CCP's risk appetite, the collateral framework, and the practices of VM pass-throughs. Generally, market participants must continue to be able to design their liquidity risk management practices

[7] CCP Global, Response to CPMI-IOSCO Report on Streamlining variation margin in centrally cleared markets – examples of effective practices (May 2024), available at Link.

considering their specific circumstances and risk appetites.

Conclusion

CCP Global appreciates the efforts of the FSB and other standard setting bodies in reviewing margining practices for both centrally and non-centrally cleared markets. As mentioned above, we generally support the policy recommendations in the Consultation. We also emphasise the importance of several key practices for market participants, i.e., using all available CCP tools and information to understand the margin requirements, assessing changes in their risk profiles when engaging in additional trades, and designing prudent liquidity risk management frameworks. Additionally, we urge authorities to continue their efforts to close the gaps in regulatory reporting and to enhance transparency in the non-centrally cleared markets, where a robust standard of transparency is critical to the overall stability of the financial system.

About CCP Global

CCP Global is the international association for CCPs, representing 42 members who operate over 60 individual central counterparties (CCPs) across the Americas, EMEA, and the Asia-Pacific region.

CCP Global promotes effective, practical, and appropriate risk management and operational standards for CCPs to ensure the safety and efficiency of the financial markets it represents. CCP Global leads and assesses global regulatory and industry initiatives that concern CCPs to form consensus views, while also actively engaging with regulatory agencies and industry constituents through consultation responses, forum discussions, and position papers.

For more information, please contact the office by e-mail at office@ccp-global.org or through our website by visiting www.ccp-global.org.

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