FSB FINANCIAL STABILITY BOARD

Leverage in Non-Bank Financial Intermediation: Consultation report

Response to Consultation

Chicago Mercantile Exchange

Recommendation 1

1. **Is the description of the financial stability risks from leverage in NBFI accurate and comprehensive? Are there additional vulnerabilities or risk dimensions related to NBFI leverage that authorities should consider for monitoring purposes?**

2. **What are the most effective risk metrics that should be considered by authorities to identify and monitor financial stability risks arising from NBFI leverage?**

3. **What are the most effective metrics for the monitoring of financial stability risks resulting from:**

   (i) specific market activities, such as trading and investing in repos and derivatives

   (ii) specific types of entities, such as hedge funds, other leveraged investment funds, insurance companies and pension funds

   (iii) concentration and crowded trading strategies

Recommendation 3

4. **What types of publicly disclosed information (e.g. transaction volumes, outstanding amounts, aggregated regulatory data) are useful for market participants to enhance their liquidity or counterparty credit risk management? Are there trade-offs in publicly disclosing such information and, if so, what would be the most important elements to consider? What is the appropriate publication frequency and level of aggregation of publicly disclosed information?**

   CME Group is a strong proponent of transparency for all market stakeholders and welcomes the opportunity to discuss enhancements to transparency designed to support market participants' ability to manage risks from NBFI leverage and estimate counterparty exposures and liquidation costs. However, it is not clear to CME Group how additional or enhanced disclosures from CCPs would support market participants ability to manage risks from NBFI leverage, since, as the Consultation recognizes, CCPs are neither leveraged non-bank financial entities or leverage providers.

   With that said, CCPs already provide significant transparency and CME Group has endeavored to be a leader on that front. CCPs, including CME Clearing, provide transparency to the public by publishing qualitative and quantitative disclosures in line with

CPMI-IOSCO's standards that comprehensively cover their risk management practices, including margining, stress testing, and collateral management (e.g., haircuts). Qualitative disclosures are updated at least every other year or following a material change to practices and quantitative disclosures are updated quarterly. In addition, CCPs provide various other forms of public information, such as their rulebooks, advisories, and rule filings, along with information provided to market participants through risk committees, working groups, coordination with industry associations, and 1-on-1 discussions.

CME Clearing has taken a number of steps to increase transparency beyond what is expected under local regulations, including via CME Group's website landing page dedicated to providing transparency on CME Clearing's risk management practices, entitled "CME Clearing Knowledge Center". CME Clearing, like many CCPs, also provides market participants margin model white papers, subject to any necessary confidentiality and non-disclosure agreements, that describe both technical and non-technical aspects of its margin models (e.g., key model parameters, including initial margin add-ons). Further, CME Clearing provides its market participants with margin simulation tools, including CME CORE, allowing them to calculate and evaluate initial margin requirements for all products cleared by CME Clearing and conduct margin analysis on current and hypothetical portfolios.

The current level of disclosure provided by CCPs provides comprehensive information, particularly with respect to their margining practices, and supports market participants' ability to manage risks from NBFI leverage and estimate counterparty exposures and liquidation costs. Requiring CCPs to potentially make additional or enhanced public disclosures, as is contemplated under Recommendation 3 of the Consultation, is inappropriate. The same level of public disclosure provided by CCPs is not replicated by leveraged non-bank financial entities and leverage providers, including with respect to centrally and non-centrally cleared markets. The Phase 1 Report recognized that transparency from clearing members to clients, as well as further transparency regarding margins in non-centrally cleared markets, are important factors for supporting market participants' liquidity preparedness. Therefore, policy-makers should focus on increasing the transparency from leveraged non-bank financial entities and leverage providers, opposed to CCPs.

(see document submitted for footnotes and emphasis)

Recommendation 5

5. Do Recommendations 4 and 5 sufficiently capture measures that would be used to address the scope of non-bank financial entities under consideration in this report? In what ways may the policy measures proposed in the consultation report need to be adjusted to account for different types of non-bank financial entities?

As noted previously, CCPs' risk management practices have proved sufficient to withstand the recent episodes of market stresses and in doing so, bolstered financial stability and reduced systemic risk. Paramount to the success of navigating these periods of market stresses, has been CCPs' risk management practices, particularly margining practices. CPMI-IOSCO's Principles for financial market infrastructures ("PFMIs") appropriately allow CCPs to carefully design their risk management practices to account for the unique characteristics of the participants they serve and the markets they clear. For example, CCPs calibrate their margin methodologies, taking into account the specific characteristics of the

products and markets they clear, in order to establish initial margin requirements commensurate with the risks of each product and portfolio, such that margin requirements meet an established single-tailed confidence level of at least 99% of the estimated distribution of future exposure, consistent with PFMIs.

CCPs have the requisite expertise and knowledge of their markets necessary to design their risk management practices, including calibrating their margin methodologies to set appropriate margin levels. With that in mind, CME Group is concerned with the FSB's suggestion in Recommendation 5 of the Consultation that authorities may employ policy measures that could include imposing enhanced margining requirements (including concentration margin add-ons) for centrally cleared markets. The Consultation explains that authorities may provide guidance on when and how to increase margin levels to reflect the impacts of tail risks from procyclical NBFI deleveraging and contagion to other markets and how to set concentration margin add-ons. A CCP's core function is to manage risk in its markets in a manner that supports the stability of the broader financial system. It is of the utmost important that CCPs retain the ability to design and calibrate their risk management practices, including margin methodologies, in the manner that is most suitable to the participants they serve and markets they clear. Additionally, as noted previously, CCPs provide market participants with various channels of transparency regarding their risk management practices, including to support market participants' ability to anticipate future margin calls and liquidity plan accordingly. A framework where CCPs do not have the ultimate authority for the ways in which their risk management practices, particularly margin-levels (including add-ons) are implemented, could result in practices that are not appropriate for their markets or participants and unintended risk increasing outcomes. Consequently, decisions regarding a CCP's margin models and their approach to setting margins should be retained by those with the most expertise in those markets, the CCPs themselves. In addition to the risk concerns created with the application of prescriptive risk management enhancements, such a framework would also add uncertainty for market participants, especially in times of stress, as market participants would no longer be able to rely on the information provided by CCPs, as well as margin simulators, to aid in their liquidity planning. This uncertainty could subsequently result in the amplification of market stresses and ultimately, undermine financial stability, in direct opposition to the SSB's stated objectives.

6. **In what circumstances can activity-based measures, such as (i) minimum haircuts in securities financing transactions, including government bond repos, (ii) enhanced margin requirements between non-bank financial entities and their derivatives counterparties, or (iii) central clearing, be effective in addressing financial stability risks related to NBFI leverage in core financial markets, including government bond markets? To what extent can these three types of policy measures complement each other?**

As noted previously, CCPs' risk management practices have proved sufficient to withstand the recent episodes of market stresses and in doing so, bolstered financial stability and reduced systemic risk. Paramount to the success of navigating these periods of market stresses, has been CCPs' risk management practices, particularly margining practices. CPMI-IOSCO's Principles for financial market infrastructures ("PFMIs") appropriately allow CCPs to carefully design their risk management practices to account for the unique characteristics of the participants they serve and the markets they clear. For example, CCPs calibrate their margin methodologies, taking into account the specific characteristics of the products and markets they clear, in order to establish initial margin requirements

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7. **Are there benefits to dynamic approaches to minimum margin and haircut requirements, e.g. where the requirements change based on changes in concentration or system-wide leverage? If so, what types of indicators capturing concentration or system-wide leverage should the requirements be linked to?**

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8. **Are there any potential unintended consequences from activity-based measures beyond those identified in the consultation report?**

As noted previously, CCPs' risk management practices have proved sufficient to withstand the recent episodes of market stresses and in doing so, bolstered financial stability and reduced systemic risk. Paramount to the success of navigating these periods of market stresses, has been CCPs' risk management practices, particularly margining practices. CPMI-IOSCO's Principles for financial market infrastructures ("PFMIs") appropriately allow CCPs to carefully design their risk management practices to account for the unique characteristics of the participants they serve and the markets they clear. For example, CCPs calibrate their margin methodologies, taking into account the specific characteristics of the products and markets they clear, in order to establish initial margin requirements commensurate with the risks of each product and portfolio, such that margin requirements meet an established single-tailed confidence level of at least 99% of the estimated distribution of future exposure, consistent with PFMIs.

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9. **For non-centrally cleared securities financing transactions, including government bond repos, what are the merits of margin requirements compared to minimum haircuts?**

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10. **In what circumstances can entity-based measures, such as (i) direct and (ii) indirect leverage limits be effective in addressing financial stability risks related to NBFI leverage in core financial markets?**

    As noted previously, CCPs' risk management practices have proved sufficient to withstand the recent episodes of market stresses and in doing so, bolstered financial stability and reduced systemic risk. Paramount to the success of navigating these periods of market stresses, has been CCPs' risk management practices, particularly margining practices. CPMI-IOSCO's Principles for financial market infrastructures ("PFMIs") appropriately allow CCPs to carefully design their risk management practices to account for the unique characteristics of the participants they serve and the markets they clear. For example, CCPs calibrate their margin methodologies, taking into account the specific characteristics of the products and markets they clear, in order to establish initial margin requirements commensurate with the risks of each product and portfolio, such that margin requirements meet an established single-tailed confidence level of at least 99% of the estimated distribution of future exposure, consistent with PFMIs.

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11. Are there ways to design and calibrate entity-based measures to increase their risk sensitivity and/or their effectiveness in addressing financial stability risks from NBFI leverage?

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12. **Are there any potential unintended consequences from entity-based measures beyond those identified in the consultation report?**

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13. **To what extent can activity-based and entity-based measures complement each other? What are the main considerations around using these two types of measures in combination?**

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Recommendation 6

14. **How could counterparty credit risk management requirements for leverage providers be enhanced to be more effective in addressing financial stability risks from NBFI**

leverage in core financial markets, such as government bond repo markets? In what circumstances can they be most effective?

Recommendation 7

15. **Would a minimum set of disclosures to be provided by leverage users to leverage providers be beneficial in improving counterparty credit risk management and reducing financial stability risks from NBFI leverage, including concentration risks? If so, which types of information and what level of granularity should (and should not) be included in this minimum set and why?**
16. **What are the main impediments that leverage users face in sharing additional or more granular data with their leverage providers? Is there a risk that a minimum recommended set of disclosures may lead leverage users to limit the information they share with their leverage providers to that minimum set?**
17. **Should such a minimum set of disclosures rely on harmonised data and metrics to ensure transparency and efficiency in the use of such information for risk management purposes? Do respondents agree that such a minimum set of disclosures should be based on the list of principles outlined in the consultation report? If not, which principles should be added, deleted or amended?**
18. **Should leverage users be required or expected to provide enhanced disclosures (beyond that provided in normal market conditions) to their leverage providers during times of stress?**
19. **Should authorities design a minimum set of harmonised disclosures and guidelines on its application, or should they convene a cross-industry working group to do so? How do respondents believe such a standard should be incorporated into market practice? Through regulation, supervisory guidance, and/or via a Code of Conduct or similar approach?**

Recommendation 8

20. **Are there areas where the principle of "same risk, same regulatory treatment" should be more consistently applied? Are there circumstances in which the principle should not apply or should not apply comprehensively?**

February 28, 2025

Secretariat to the Financial Stability Board
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VIA ELECTRONIC SUBMISSION

Re: Consultative Report on *Leverage in Non-bank Financial Intermediation*

To Whom it May Concern,

CME Group Inc. ("CME Group")[1] appreciates this opportunity to comment on the Financial Stability Board's ("FSB") consultative report on *Leverage in Non-bank Financial Intermediation* ("the Consultation").[2]

Chicago Mercantile Exchange Inc. ("CME") is a wholly-owned subsidiary of CME Group. CME is registered with the Commodity Futures Trading Commission ("CFTC") as a derivatives clearing organization ("DCO") ("CME Clearing" or the "Clearing House"). CME Clearing offers clearing and settlement services for listed futures and options on futures contracts, including those listed on CME Group's CFTC-registered designated contract markets ("DCMs"), as well as over-the-counter derivatives transactions, including interest rate swaps ("IRS") products. On July 18, 2012, the Financial Stability Oversight Council designated CME as a systemically important financial market utility ("SIFMU") under Title VIII of the Dodd-Frank Wall Street Reform and Consumer Protection Act. As a SIFMU, CME is also a systemically important DCO.

I. INTRODUCTION

[1] As a leading and diverse derivatives marketplace, CME Group enables clients to trade in futures, cash and over-the-counter markets, optimize portfolios, and analyze data – empowering market participants worldwide to efficiently manage risk and capture opportunities. CME Group's exchanges offer the widest range of global benchmark products across all major asset classes based on interest rates, equity indexes, foreign exchange, energy, agricultural products, and metals. CME Group offers futures trading through the CME Globex platform, fixed income trading via BrokerTec, foreign exchange trading on the EBS platform.

[2] Financial Stability Board, Consultative report, *Leverage in Non-bank Financial Intermediation* [hereafter, "*Consultation*"] (Dec. 2024), *available at* https://www.fsb.org/uploads/P181224.pdf.

CME Group appreciates the ongoing focus of the FSB—along with the Basel Committee on Banking Supervision ("BCBS"), Committee on Payments and Market Infrastructures ("CPMI") and International Organization of Securities Commissions ("IOSCO") (together, with the FSB, the "standard setting bodies" or "SSBs")—on financial stability. CME Group recognizes the importance of the work done by the FSB to analyze the risks arising from leverage in non-bank financial intermediation ("NBFI"). Since the Consultation makes remarks and recommendations regarding centrally cleared markets and more specifically, CCPs' risk management practices,[3] it is important to recognize that the various reports published by the SSBs evidence that central counterparties ("CCPs") have successfully supported the stability of the markets they clear and in turn, the broader financial system throughout various market stresses, including related to the global pandemic and Russia's invasion of Ukraine. For example, the comprehensive data covering CCPs' margining practices gathered and analyzed in the BSCS-CPMI-IOSCO report on *Review of Margining Practices*[4] (the "Phase 1 Report"), as well as other industry publications, provide powerful evidence of CCPs' successful, anti-procyclical response to recent market stresses, demonstrating that CCPs supported their market participants' ability to manage risks from NBFI leverage.[5] CME Group shares policy-makers' goals of supporting the safety and soundness of the global financial system as evidenced by CCPs' risk management practices which have promoted financial stability and allowed the financial system to weather unprecedented volatility. As such, CME Group supports any efforts to replicate the strong risk management and transparency demonstrated by CCPs elsewhere in the financial system.

CME Group's comments below are focused on those recommendations in the Consultation that directly relate to CCPs' transparency and risk management practices.

II. SPECIFIC COMMENTS

Recommendation 3*: Authorities should review the level of granularity, frequency, and timeliness of existing public disclosures* ***and determine the degree to which additional or enhanced disclosures should be provided to the public, either by*** *(i) authorities, including disclosure based on regulatory reporting data, (ii)* ***the relevant financial market infrastructure providers*** *or (iii) directly by financial entities, balancing the costs and benefits of doing so. This includes dissemination by authorities of data and information on aggregate market positioning and transaction volumes based on existing regulatory reporting. Such additional or enhanced disclosures should be designed and calibrated to increase transparency especially about concentration risk and crowdedness, with the aim to support market*

[3] *Consultation* at pgs. 20-26 (noting, Recommendations 4 and 5).

[4] Basel Committee on Banking Supervision, Committee on Payments and Market Infrastructures, and Board of International Organization of Securities Commissions, *Review of margining practices* [hereafter, "*Phase 1 Report*"] (Sept. 2022), *available at* https://www.bis.org/bcbs/publ/d537.pdf.

[5] *Phase 1 Report* at pg. 24 (Figure 15 demonstrates that, on a relative basis, risk factor initial margin changes were lower than changes in volatility); *Phase 1 Report* at pgs. 19-20 (intermediaries reported that out of the listed factors potentially affecting margin calls which they paid and received, market volatility was the most important factor for both centrally and non-centrally cleared markets and they also reported that changes in margin parameters were not even among the top five factors affecting margin calls.); *Phase 1 Report* at pg. 29 (broadly, "[i]ntermediaries reported being relatively unaffected by the increase in margin calls in March 2020."); *Phase 1 Report* at pgs. 9-11 (for centrally cleared markets, variation margin calls far exceeded initial margin calls, as evidenced by the fact that from February to mid- March variation margin calls increased by 460% and the VIX increased by 400%, whereas IM requirements modestly increased by 40%.).

*participants' ability to manage risks from NBFI leverage and estimate counterparty exposures and liquidation costs. (emphasis **added**).*

CME Group is a strong proponent of transparency for all market stakeholders and welcomes the opportunity to discuss enhancements to transparency designed to support market participants' ability to manage risks from NBFI leverage and estimate counterparty exposures and liquidation costs. However, it is not clear to CME Group how additional or enhanced disclosures from CCPs would support market participants ability to manage risks from NBFI leverage, since, as the Consultation recognizes, CCPs are neither leveraged non-bank financial entities or leverage providers.[6]

With that said, CCPs already provide significant transparency and CME Group has endeavored to be a leader on that front. CCPs, including CME Clearing, provide transparency to the public by publishing qualitative and quantitative disclosures in line with CPMI-IOSCO's standards[7] that comprehensively cover their risk management practices, including margining, stress testing, and collateral management (e.g., haircuts).[8] Qualitative disclosures are updated at least every other year or following a material change to practices and quantitative disclosures are updated quarterly. In addition, CCPs provide various other forms of public information, such as their rulebooks, advisories, and rule filings, along with information provided to market participants through risk committees, working groups, coordination with industry associations, and 1-on-1 discussions.

CME Clearing has taken a number of steps to increase transparency beyond what is expected under local regulations, including via CME Group's website landing page dedicated to providing transparency on CME Clearing's risk management practices, entitled *"CME Clearing Knowledge Center"*.[9] CME Clearing, like many CCPs, also provides market participants margin model white papers, subject to any necessary confidentiality and non-disclosure agreements, that describe both technical and non-technical aspects of its margin models (e.g., key model parameters, including initial margin add-ons). Further, CME Clearing provides its market participants with margin simulation tools, including CME CORE, allowing them to calculate and evaluate initial margin requirements for all products cleared by CME Clearing and conduct margin analysis on current and hypothetical portfolios.

The current level of disclosure provided by CCPs provides comprehensive information, particularly with respect to their margining practices, and supports market participants' ability to manage risks from NBFI

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[6] *Consultation* at pg. 3.

[7] Committee on Payment and Settlement Systems (later renamed the Committee on Payments and Market Infrastructures) and Board of the International Organization of Securities Commissions, *Principles for financial market infrastructures: Disclosure framework and Assessment methodology* [hereafter, "*PFMI Disclosures*"] (Dec. 2012) and Committee on Payments and Market Infrastructures and Board of the International Organization of Securities Commissions, *Public quantitative disclosure standards for central counterparties* [hereafter, "*PQD*"] (Feb. 2015).

[8] *See* CME Clearing's PFMI and PQD disclosures, available here: https://www.cmegroup.com/clearing/risk-management/files/cme-clearing-principles-for-financial-market-infrastructures-disclosure.pdf and https://www.cmegroup.com/clearing/cpmi-iosco-reporting.html, respectively (noting, disclosures relating to Principle 6: Margin).

[9] *See* https://www.cmegroup.com/clearing/cme-clearing-knowledge-center.html (noting, the *CME Clearing Knowledge Center* includes a variety of documents to educate and provide details on CME Clearing's risk management practices, including CME Clearing's margining, financial safeguards, and collateral services).

leverage and estimate counterparty exposures and liquidation costs. Requiring CCPs to potentially make additional or enhanced public disclosures, as is contemplated under Recommendation 3 of the Consultation, is inappropriate. The same level of public disclosure provided by CCPs is not replicated by leveraged non-bank financial entities and leverage providers, including with respect to centrally and non-centrally cleared markets. The Phase 1 Report recognized that transparency from clearing members to clients, as well as further transparency regarding margins in non-centrally cleared markets, are important factors for supporting market participants' liquidity preparedness.[10] Therefore, policy-makers should focus on increasing the transparency from leveraged non-bank financial entities and leverage providers, opposed to CCPs.

> ***Recommendation 5****: When selecting policy measures to address financial stability risks from NBFI leverage in core financial markets,* ***authorities should evaluate a wide range of measures, including both activity and entity-based measures, as well as concentration related measures****. Authorities' choice of measures should be based on the nature and drivers of identified risks, taking into account their expected effectiveness and any potential costs or unintended consequences, as well as measures taken in other jurisdictions to address similar risks. Activity-based measures include (i) minimum haircuts in SFTs, including government bond repos, (ii)* ***enhanced margining requirements between non-bank financial entities and their derivatives counterparties****, and (iii) central clearing mandates in SFT and derivatives markets. Entity-based measures include (i) direct limits on leverage, and (ii) indirect leverage constraints linked to risks that non-bank financial entities are exposed to. Concentration measures include (i)* ***concentration add-ons for margins and haircuts in connection with exposures of non-bank financial entities in derivatives*** *and SFT markets, (ii) concentration and large exposure limits, and (iii) large position reporting requirements. (emphasis* ***added****).*[11]

As noted previously, CCPs' risk management practices have proved sufficient to withstand the recent episodes of market stresses and in doing so, bolstered financial stability and reduced systemic risk. Paramount to the success of navigating these periods of market stresses, has been CCPs' risk management practices, particularly margining practices. CPMI-IOSCO's *Principles for financial market infrastructures* ("PFMIs") [12] appropriately allow CCPs to carefully design their risk management practices to account for the unique characteristics of the participants they serve and the markets they clear. For example, CCPs calibrate their margin methodologies, taking into account the specific characteristics of the products and markets they clear, in order to establish initial margin requirements commensurate with the risks of each product and portfolio, such that margin requirements meet an established single-tailed confidence level of at least 99% of the estimated distribution of future exposure, consistent with PFMIs.[13]

CCPs have the requisite expertise and knowledge of their markets necessary to design their risk management practices, including calibrating their margin methodologies to set appropriate margin levels.

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[10] *Phase 1 Report* at pgs. 36-7.

[11] CME Group notes that its comments with respect to Recommendation 5 also apply to related proposals outlined under Recommendation 4.

[12] Committee on Payment and Settlement Systems (later renamed the Committee on Payments and Market Infrastructures) and Board of the International Organization of Securities Commissions, *Principles for financial market infrastructures* [hereafter, "*PFMIs*"] (Apr. 2012) (noting, Principle 6: Margin).

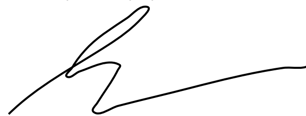
[13] *PFMI Disclosures* (noting, Principle 6: Margin).

With that in mind, CME Group is concerned with the FSB's suggestion in Recommendation 5 of the Consultation that authorities may employ policy measures that could include imposing enhanced margining requirements (including concentration margin add-ons) for centrally cleared markets. The Consultation explains that authorities may provide guidance on when and how to increase margin levels to reflect the impacts of tail risks from procyclical NBFI deleveraging and contagion to other markets[14] and how to set concentration margin add-ons.[15] A CCP's core function is to manage risk in its markets in a manner that supports the stability of the broader financial system. It is of the utmost important that CCPs retain the ability to design and calibrate their risk management practices, including margin methodologies, in the manner that is most suitable to the participants they serve and markets they clear. Additionally, as noted previously, CCPs provide market participants with various channels of transparency regarding their risk management practices, including to support market participants' ability to anticipate future margin calls and liquidity plan accordingly. A framework where CCPs do not have the ultimate authority for the ways in which their risk management practices, particularly margin-levels (including add-ons) are implemented, could result in practices that are not appropriate for their markets or participants and unintended risk increasing outcomes. Consequently, decisions regarding a CCP's margin models and their approach to setting margins should be retained by those with the most expertise in those markets, the CCPs themselves. In addition to the risk concerns created with the application of prescriptive risk management enhancements, such a framework would also add uncertainty for market participants, especially in times of stress, as market participants would no longer be able to rely on the information provided by CCPs, as well as margin simulators, to aid in their liquidity planning. This uncertainty could subsequently result in the amplification of market stresses and ultimately, undermine financial stability, in direct opposition to the SSB's stated objectives.

III. CONCLUSION

CME Group appreciates the FSB's ongoing work to support financial stability, including as it relates to NBFI leverage, and supports any effort to mirror the transparency efforts already accomplished by CCPs in other areas of the financial system. We would be happy to further discuss our comments with the FSB. If any comments or questions regarding this submission arise, please feel free to contact me or Sean Downey, Managing Director, Clearing Chief Compliance Officer, Enterprise Risk Officer and Head of Policy.

Very truly yours,



Suzanne Sprague
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Global Head of Clearing

[14] *Consultation* at pg. 23.
[15] *Consultation* at pg. 25.