

Liquidity Preparedness for Margin and Collateral Calls: Consultation report

Response to Consultation

Energy Traders Europe (EFET)

- 1. Does the outlined approach identify all key causes of some non-bank market participant's inadequate liquidity preparedness with respect to spikes in margin and collateral calls during times of stress? Are there any sector specific causes that should be considered?**

Energy Traders Europe welcome the proposed recommendations on Liquidity Preparedness for Margin and Collateral Calls which aim to increase preparedness for margin and collateral calls.

Energy Traders Europe has been working over the past 25 years to exchange and promote best practices and develop industry standards which, on one side cover general commodity trading processes, on the other side, focus on margin and Over-The-Counter (OTC) Collateral Management. Additionally, we are regularly in contact with key stakeholders such as Central Counterparties (CCPs) and Clearing Members (CMs) with the aim to raise awareness about the conditions and the needs of market participants, including Non-Bank Financial Intermediaries (NBFIs) and other non-financial market participants. Over the years, the focus of such contacts has been on available information, tools and practices, already existing or still to be developed, that help not only to replicate the calculation of margin and collateral requirements but also to simulate liquidity demand in market environments, during both normal or more extreme conditions caused by higher level of volatility.

The extreme and special market conditions created over the past few years due to, among other reasons, the COVID crisis and Russia's invasion of Ukraine served as lessons learned to re-enforce existing processes and facilitate the need for transparency and predictability in CCP margining practices. This, in addition to the cooperation among all the parties, helped to continuously improve liquidity planning.

The pressure on liquidity planning and sourcing experienced during stressed markets in energy markets in 2022 was re-enforced by the increasing aversion to risk and capacity limitations by credit providers. These factors lead to a reduction of the activities of those providers in commodity markets during stressful times. What is described above was made more difficult for both NBFIs and other non-financial market participants due to the lack of transparency in CCP and Clearing Member margining practices.

Energy Traders Europe has been continuously calling for stronger preparedness for margin and collateral calls, especially during extreme market conditions. As indicated in our responses to some recent consultations, such as the BCBS-CPMI-IOSCO consultation “Transparency and responsiveness of initial margin in centrally cleared markets: review and policy proposals”, in the case of centrally cleared markets, preparedness requires a strong support from both CCPs and CMs not only for the calculation of their margin requirements, which must be more transparent and easily accessible, but also in providing market participants with simulation tools that will constantly improve liquidity planning processes.

For commodity centrally cleared commodity derivatives, as well as in the OTC collateral environments, cash remains the main collateral form that CM clients use to post margin calls. The experience made in centrally cleared markets in commodity area is that, under normal market conditions, margin calls, made by CCPs and passed through by CM to their clients, follow a precise schedule as defined in CCPs’ rules and in the clearing services agreements between the CMs and their clients.

In most cases and for the majority of centrally cleared markets:

- Margin calls are issued in the morning of a specific Business Day (BD), based on an End of the Day (EoD) margin calculation of the previous business day (BD–1) and are due by the Clients on the same day (BD) around lunchtime. Therefore a few hours after CMs have delivered themselves the margin due to the CCP (in the morning of that Business Day (BD)).
- Margin calculations (credit or debit) are netted against any other type of cash flow expected in the same BD, e.g. Initial Margins adjustments due to positions or parameter changes, settlements, fees, or any other rebates.

Energy Traders Europe identified as the most effective and recommend the following practices:

- Increased transparency and predictability about intraday Margin Calls.
- Sufficient prior notice of unscheduled intraday margin payments.
- Offsetting of VM Calls with other payment flows.
- Pass-through of Margin.
- Information regarding the CCP’s processes and timing for unscheduled intraday margin calls.
- Feedback on the CCP’s margin practices from market participants.
- Transparency to clients regarding the CM’s processes and timing of intraday Margin Calls.

The fact, for instance, that CCP can raise multiple unscheduled intraday margin calls to CMs, which can forward them to their clients can be a big obstacle to an effective

preparedness for margin calls and related liquidity planning especially for non-bank market participants. It's a hurdle as well the fact that CM can ask their clients ad hoc/additional margins based on their own discretion and own credit assessment. This is particularly true considering that non-financial market participants do not always have immediate access to cash and in the same manner as banks.

2. Is the scope of the proposed policy recommendations appropriate?

We broadly welcome the proposed policy recommendations; however, due to the breadth of different NBFIs sectors, and the varied financial or market regulation to which different types of NBFIs (and many other non-financial market participants) are already subject, a one-size-fits-all approach is not appropriate. Too detailed requirements are likely to lead to unsuitable and conflicting standards.

Energy Traders Europe would welcome an unequivocal statement from FSB that clarifies that FSB policy recommendations, as well as the illustrative examples included, should not be interpreted as universally applicable basic standards or best practices to be followed by all types of non-bank market participants. In addition, Energy Traders Europe urges FSB to include wording that makes it clear that its policy recommendations are aimed at NBFIs, and that non-financial market participants are not in scope.

We note that FSB says that non-financial entities such as commodity traders "might also benefit from the recommendations as sound practices" but that "financial authorities do not directly supervise all non-bank market participants and are not expected to do so". Energy Traders Europe fully agree with this and note that some commodity traders are NBFIs, and some are not. Consistent use of the term NBFIs in the FSB recommendations would aid comprehension and reduce the likelihood of inconsistent interpretation by different Standard-Setting Bodies (SSBs) and regulators in different jurisdictions.

Recommendation 1: sets out the need to include liquidity risk arising from exposures to spikes in margin and collateral calls in liquidity risk management and governance frameworks.

Energy Traders Europe, among which some are NBFIs, and many other are non-financial market participants, therefore not directly covered by the recommendations, are aware of the impact of price spikes on liquidity demand, e.g. the increasing magnitude of margin calls on the centrally cleared and OTC collateral side and have corresponding processes as part of their general risk management system. Some non-bank market participants are even elected as members of the Risk Committees of some large CCPs. The continuous improvement of these processes is highly dependent on the transparency and predictability of CCP and Clearing Member margin practices and the accessibility to user friendly simulation tools provided by CCPs as well as on the support of Clearing Members in running and/or comparing simulations and/or their results. However, to maximise the effectiveness of margin and collateral simulations, we would welcome more Application Programming Interfaces (API) based on technical solutions that would reduce the efforts and time needed to run simulations.

Recommendation 2: sets out the need for establishing liquidity risk appetites for margin and collateral calls as well as contingency funding plans to ensure liquidity needs can be

met. Energy Traders Europe fully agrees with this recommendation. NBFIs and many other non-financial market participants not directly covered by the recommendations have considered this aspect already in their Risk Management systems, even before experiencing the extreme market conditions encountered over the past years. In this regard, it is also important to reiterate that the price spikes observed in 2021 and 2022 in energy markets were the result of unexpected and serious geopolitical situations and in particular of the interruption Russian gas supplies which led to drastic shortage of supply and extraordinary price spikes and volatility. Regardless of any simulation, they would still be extremely challenging to overcome due to the immense increase of margin requirements in a very short time frame. Indeed, the points highlighted in the FSB's report on the Financial Stability Aspects of Commodities markets (2023) suggests that the pressure on liquidity planning and sourcing experienced during stressed markets in commodities in 2022 was not due to clients' lack of readiness to handle their finances, but rather to the increasing aversion to risk and capacity limitations of credit providers. These factors lead to a reduction of the activities of those entities in commodity markets during stressful times. This situation was made more challenging for NBFIs and non-financial market participants because of the lack of transparency in CCP and Clearing Member margining practices and the lack of predictability of margin calls. Once again, to successfully improve a risk management system complete transparency about the method used for the calculation of margins must be applied by CPs (may they be CCPs, Clearing Members or OTC CPs). Liquidity preparedness cannot work properly if the level of discretion in the calculation of margins is too high. This happens, for instance, as mentioned above, in centrally cleared markets when Clearing Members add, on top of the ones made by CCPs, additional margin requirements purely based on discretionary credit assessment decision which is not transparent or predictable for their client, the non-bank market participant. Flexibility of eligible collateral and transparency and predictability of margin requirements are important considerations, particularly for Clearing Member clients who include NBFIs and other non-financial market participants who may not have as much ready access to cash to fund margin calls and could mitigate risks of widespread selling of non-cash assets to meet such margin calls.

Recommendation 3: sets out the need for regular reviews of liquidity risk frameworks to ensure on-going effectiveness in mitigating liquidity risk exposures to spikes in margin and collateral calls, including during times of stress. We also agree that this recommendation is an extremely effective practice and that NBFIs and many other non-financial market participants have increased efforts to continuously review their liquidity risk framework, especially by using lessons learnt from recent markets events.

Recommendation 4 sets out the need for conducting liquidity stress tests with respect to margin and collateral calls to identify the sources of liquidity strains and ensure the calibration of adequate, diverse and reliable sources of liquidity and collateral, consistent with market participants' risk appetite. This recommendation describes the best practice that NBFIs (many other non-financial market participants not in scope of the recommendations) have already in place or are striving to implement. It belongs to the standard "business as usual" liquidity planning that Treasury Departments of companies have to run on a regular basis. Margins and Collateral represent indeed one of the main cash flows that NBFIs and other non-financial market participants have to plan and manage on a daily basis. With the continuous improvement of framework and processes

that have been triggered by the recent crisis, many market participants have set up specific escalation and decision making processes to better respond to changing market conditions that cause high impact on liquidity, including the different solutions to be implemented (e.g., immediate reduction or close-out of positions, extraordinary credit lines granted by commercial banks, accessing to additional further liquidity sources, normally “dormant” during normal market conditions).

Recommendation 5 calls for liquidity stress tests to cover a range of extreme but plausible scenarios, including both backward-looking and hypothetical.

As indicated above, the success of such a practice is highly dependent on:

- The accessibility and user friendliness of simulations tools provided by CCP and/or Clearing Members so that exercise can be carried out along the whole process value chain of the margin calculation.
- The highest level of transparency of margin calculation and the lowest level of discretionary calculations.
- Regular exchanges with other market participants on OTC Collateral Management side. Energy Traders Europe has been investing significant effort to ensure that regular and effective exchanges between our members lead to the sharing and the development of best practices on such matters.
- Any resulting regulations giving enough flexibility to ensure that extreme but plausible scenarios are developed in a manner that is appropriate, credible, and relevant to an NBFIs own business and risk profile.

Recommendation 6 sets out the need for resilient and effective operational processes and collateral management practices.

Recommendation 6 belongs to the standard of processes already implemented and/or under further development by many the Energy Traders Europe, including both NBFIs and many of those that are non-financial market participants and therefore not directly covered by the recommendations. The frequency of the monitoring and simulation of margin and collateral requirements is also dependent on the size of activity of each company. However, the problematic practice of issuing unscheduled extraordinary Variation Margin Calls (in centrally cleared markets) is unknown for OTC Collateral Management between OTC Counterparties, even in extreme market scenarios. Except for those NBFIs and other non-financial market participants which, under certain conditions laid down by the European Market Infrastructure Regulation (EMIR) provisions, may opt for either centrally cleared or non-centrally cleared transactions, in voluntary clearing the restricted range of eligible collateral for cleared variation margin remains one of the bigger challenges. Therefore, moving positions from central clearing to bilateral markets should be considered as a solution to increase flexibility rather than a source of increased risk, especially in time of stress. On the other hand, as better described above, restricted collateral solutions, lack of transparency in CCP and Clearing Member margining practices, and unpredictable cleared margin requirements, would lead to increased liquidity risk. CCPs need the discretion to raise margins during stressed periods to ensure

they do not have non-collateralised risk; similarly, CMs increasingly deploy the ability to pass-through multiple intraday ad hoc and unscheduled VM calls to ensure that the risk that they are guaranteeing is adequately covered. It is worth noting, however, that there can be a timing mismatch between intra-day margin calls and circumstances where a Clearing Member has a large excess of Margin with a CCP and is not allowed to recall any margin back until the next day, adding to liquidity pressure. Those intraday, ad hoc unscheduled VM calls create specific pressure on cash liquidity planning and sourcing, especially for NBFIs and other non-financial market participants who are direct Clearing Members or the clients of Clearing Members. They often, in fact, depend on the credit lines granted by their commercial banks to cover the amount; this can result in very challenging conditions especially considering the very short deadline to transfer the margin (~ 2 hours and sometimes very close to closing payment deadlines with commercial banks). Generally, market participants prefer scheduled intraday VM calls, as these are easier to predict, at least in terms of timing. Nevertheless, given the possibility that a CCP makes unscheduled calls, guidelines should be also published which explain the conditions under which extraordinary VM calls are made and whether those are made across all participants or for specific participants only. In general, for scheduled and intraday ad hoc VM calls, CCPs should provide near-real-time transparency about the accumulated risk and the call thresholds for each participant, so that clients of Clearing Members, who may be NBFIs or other non-financial market counterparties, can anticipate the size of intraday VM and/or IM calls.

Providing market participants with sufficient time can help with liquidity management. A notice period to meet intraday VM calls should be part of a CCP policy on intraday VM, developed in consultation with clearing participants. However, we acknowledge that the time between margin call and payment cannot be extremely long, otherwise CCPs would not be sufficiently covered against risk. Maximum use of netting with other cash flows and more effective collateral excess should be applied by CCPs and CMs to reduce pressure on liquidity, especially when intraday ad hoc calls are scheduled as a result of elevated price volatility. In that situation, in fact, the client of CMs may have to respond to sudden multiple VM calls within a day without receiving any intraday return if the price direction changes during a specific business day. We believe that the full potential of netting with excess collateral, e.g. IM or other expected cash flow, should be considered and applied by the CCPs and the CMs. As mentioned above, the pressure on liquidity planning and sourcing experienced during stressed markets in energy markets in 2022 was re-enforced by the increasing aversion to risk and capacity limitations of credit providers. These factors lead to a reduction of the activities of those entities in commodity markets during stressful times. This situation was made more challenging for NBFIs and other non-financial market participants because of the lack of transparency in CCP and Clearing Member margining practices. FSB, in its report, refers to "beneficial collateral terms" as a set of advantages pertaining to bilateral OTC transactions over exchange-traded derivatives. Such advantages include a wider range of eligible collateral, and more visibility and predictability of margin requirements. Indeed, factors such as flexibility, transparency, and predictability are crucial for NBFIs and many other non-financial market participants which have limited or no immediate access to cash for margin calls.

Recommendation 7 sets out the need for sufficient levels of cash and readily available and diverse liquid assets and collateral arrangements to meet margin and collateral calls.

First, and to reiterate the answer to recommendation 4, NBFIs (and many other non-financial market participants) are continuously developing and improving their normal liquidity planning processes via, among other functions, their Treasury Departments. Margins and Collateral, managed on a daily basis, are represent one of the main cash flows that NBFIs and other non-financial market participants have to plan and process on a daily basis. The planning and disposal of enough liquidity and fluid reserves belong to those processes.

Considering the nature of their activity, their corporate status and the regulations they are subject to NBFIs, and many other non-financial market participants are very limited in the form of collateral that they can use to respond to margin and collateral management requirements, the large majority of which is paid/deposited in cash. In centrally cleared markets in Europe, the European Market Infrastructure Regulation (EMIR), that entered into force initially more than 10 years ago, removed the possibility to post non-collateralised bank guarantees to CCPs (although this is hopefully resolved thanks to the revision of that same file). When EMIR will be finally confirmed and implemented, the possibility for NBFIs and other non-financial market participants to replace cash with non-collateralised bank guarantees for margins posting will allow the use of the liquidity released to respond to extraordinary calls.

Recommendation 8 sets out the need for active, transparent, and regular interactions with counterparties and third-party service providers in collateralised transactions.

As indicated in our response to question number 1, Energy Traders Europe promoted over the past 25 years the exchange of best practices between its members and developed industry standards covering processes around commodity trading I. Of relevance for this consultation, we focused on best practices on margin and OTC Collateral Management. Additionally, Energy Traders Europe holds regular contacts with key stakeholders like CCPs and CMs to raise awareness about the conditions and needs of market participants, including both NBFIs and non-financial market participants, with a particular focus on available information, tools and practices already existing or to be developed.

In centrally cleared markets, NBFIs and non-financial market participants also support stress tests organised by CCP and CM that simulate potential defaults of CM or market participants and their potential impact on market prices and resulting margin requirements.

3. Is the focus of the FSB's policy recommendations on liquidity risk management and governance, stress testing and scenario design and collateral management practices appropriate? Are there any other areas the FSB should consider?

Risk management systems established by NBFIs (and many other non-financial market participants that are not in scope of the recommendations) include the necessity of monitoring the impact of activity on liquidity. This is done by monitoring and simulating the impact of market price scenarios on margin and collateral requirements, to ensure a proper liquidity planning on one side, and liquidity preparedness on the other one. The latter regards funding resources to respond to potentially rapidly changing market conditions to higher volatility and price spikes.

As indicated above, the success of a continuous improvement and re-enforcement of NBFIs and many other non-financial market participants conditions highly depends on the implementation of recommendations made by different organisations, such as BIS-IOSCO especially for what concerns:

- a full transparency on margin model used and applied by CCP.
- a full disclosure of Clearing Members potential transformation of CCP margin requirements.
- A revision of the intraday unscheduled Variation Margin Calls, whose usage should be avoided without having considered any potential nettings, for example vs. existing margin excess, considering that NBFIs and many other non-financial market participants are operationally limited, especially in terms of time, to process intraday payments. Therefore, even in circumstances where NBFIs (or other non-financial market participants) may have the most effective margin simulation tool installed, this would not resolve such an operational constraint.

As previously remarked, Energy Traders Europe is constantly seeking exchange and cooperation with key stakeholders, including NBFIs, CCPs, and policymakers with the aim to find solutions and improve liquidity preparedness.

We call, therefore, on FSB to explore and consider methods to broaden the range of eligible collateral, without over relying on cash to fulfil margin requirements.

4. Is the approach to proportionality and materiality clear for all non-bank market participants?

Our general observation is that proportionality is an important factor because some NBFIs, as well as other non-financial market participants, may depend on margin or collateral service providers, while some others may develop their own solutions. Nevertheless, both strongly aim to understand the impact of margin and collateral requirements into liquidity planning and related preparedness. The frequency of review of the liquidity preparedness and running of stress tests would heavily depend on the size of activity covered and the risk and liquidity appetite of NBFIs.

5. Section 3.1 sets out key elements of a liquidity risk management framework to identify, monitor and manage liquidity risk exposures arising from margin and collateral calls. Are these sufficiently clear for all non-bank market participants?

Energy Traders Europe fully understands the recommended risk management framework to identify, monitor and manage liquidity risk exposures arising from margin and collateral calls. Most of these recommendations are part of the risk management system in place and Energy Traders Europe use all available resources to exchange with each other (collateral) and with key partners, such as CCPs or CMs (margin). This aims to continuously improve transparency, predictability, and liquidity preparedness and this prior to the extreme market conditions experienced over the last few years.

However, as regards the recommendation to “take into consideration the risk management practices of its counterparties” Energy Traders Europe notes that while an individual NBFI

may be able to understand in broad terms what practices its counterparties have to manage risk, it is regulators who have access to data which should enable them to develop an overall market view. Regulators already have access to a significant amount of market data.

6. Are the recommendations on liquidity stress testing and scenario design with respect to margin and collateral calls clear and sufficiently specified?

Yes, as Energy Traders Europe, we believe that the recommendations are sufficiently described. We, in fact, through the committees and the different groups, have been continuously addressing how to improve stress testing and scenario needs, which must be, of course, designed, developed and implemented hand in hand with the support of CCP and CM in centrally cleared markets. They also very much focus on the exchange of best practices and development of market wide practices are better described in above paragraphs.

7. Are there any jurisdictional or sector-specific differences that are not accounted for in the recommendations?

Due to the lack of common frameworks and agreements based on which Clearing Members (CMs) and their clients operate, as Energy Traders Europe, we do believe that Clients (including both NBFIs and other non-financial market participants) must have access to any measures which may help them with the fulfilment of their business obligations towards CMs. The design of simulators should also consider that the same will be used for different functions and by departments. The latter have different requirements. For instance, while the Operations department oversees payments, the Treasury one seeks to anticipate liquidity requirements, and the Risk Management department focuses on stress results. Despite that, we believe that the ability to anticipate liquidity requirements is relevant for all the above departments and is therefore key.

8. Collateral readiness at the right time, quality and location is a critical aspect of effective liquidity preparedness for spikes in margin and collateral calls to mitigate the risk of having to liquidate collateral under stressed market conditions. Do the FSB's recommendations in Section 3.3 address all key elements required to be effective in mitigating liquidity risk arising from margin and collateral calls?

The operational readiness for monitoring and preparing for extraordinary margin or collateral is of course related to well-established risk management system processes and technology. Accessibility to them must be tested regularly; the access to back-up solutions can be very individual and relies on bilateral negotiations with, for instance, collateral providers such as commercial banks or margin or collateral technologies (software providers).

The majority of NBFIs and other non-financial market participants are aware that Counterparties may require (unscheduled) intraday margin calls and the related mechanisms and deadlines. This is, in fact, described in the rulebooks of CCP, and reflected in the terms of the clearing services of the Clearing Members.

Not only the rules of centrally cleared markets offer a high level of standardisation across markets but the bilateral collateral agreements are also designed and follow market wide standards followed by market participants who adhere to these standard agreements, such as the Energy Traders Europe and ISDA ones. The collateral agreements foresee the necessity for counterparties to exchange information especially and among others to resolve collateral disputes.

9. Are there any material challenges to collateral management practices that some non-bank market participants may face that should be considered?

Collateral Management practices already follow market wide standard with regards to the monitoring and frequency of collateral calculations, rules around dispute or further exchange of information between counterparties that aim to ensure a smooth collateral process.

Over the past few years, Energy Traders Europe has been facilitating several committees and working groups that allow NBFIs and other non-financial market participants to design and develop market standards, create a forum to exchange on best practices concerning margin and collateral monitoring, replication and simulation and simulating.

If you have any additional comments, please provide them below.

It is important to note that the "Non-Bank Financial Intermediaries" (NBFIs) category includes various financial entities, as outlined by the FSB and the European Commission in its ongoing Consultation on macroprudential policies for Non-Bank Financial Intermediation. This category encompasses entities that are authorised by financial regulators to conduct financial activities or provide financial services such as asset management companies, investment funds, non-bank investment firms, pension funds, and insurance companies, as well as unregulated financial entities including family offices and supply chain finance companies.

As of today, this list may not be exhaustive, and a clear definition of what the NBFIs concept encompasses is still lacking. Non-financial market participants active in commodity trading should not be grouped with NBFIs. We acknowledge the relevance of the FSB recommendations to the activities of the non-financial market participants active in commodity trading and the potential benefits that may arise from considering them as guidelines to our members' daily practices. Considering all the above, we have our thoughts on the FSB recommendations, emphasizing the need for a clear definition of NBFIs and caution against grouping diverse entities under the same category. In any event, non-financial market participants are not NBFIs.

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SECTION 1

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The pressure on liquidity planning and sourcing experienced during stressed markets in energy markets in 2022 was re-enforced by the increasing aversion to risk and capacity limitations by credit providers. These factors lead to a reduction of the activities of those providers in commodity markets during stressful times. What is described above was made more difficult for both NBFIs and other non-financial market participants due to the lack of transparency in CCP and Clearing Member margining practices.

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CONSULTATION RESPONSE



SECTION 2

2. Is the scope of the proposed policy recommendations appropriate?

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Energy Traders Europe fully agrees with this recommendation. NBFIs and many other non-financial market participants not directly covered by the recommendations have considered this aspect already in their Risk Management systems, even before experiencing the extreme market conditions encountered over the past years.

In this regard, it is also important to reiterate that the price spikes observed in 2021 and 2022 in energy markets were the result of unexpected and serious geopolitical situations and in particular of the interruption Russian gas supplies which led to drastic shortage of supply and extraordinary price spikes and volatility. Regardless of any simulation, they would still be extremely challenging to overcome due to the immense increase of margin requirements in a very short time frame.

Indeed, the points highlighted in the FSB's report on the Financial Stability Aspects of Commodities markets (2023) suggests that the pressure on liquidity planning and sourcing experienced during stressed markets in commodities in 2022 was not due to clients' lack of readiness to handle their finances, but rather to the increasing aversion to risk and capacity limitations of credit providers. These factors lead to a reduction of the activities of those entities in commodity markets during stressful times. This situation was made more challenging for NBFIs and non-financial market participants because of the lack of transparency in CCP and Clearing Member margining practices and the lack of predictability of margin calls.

Once again, to successfully improve a risk management system complete transparency about the method used for the calculation of margins must be applied by CPs (may they be CCPs, Clearing

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Members or OTC CPs). Liquidity preparedness cannot work properly if the level of discretion in the calculation of margins is too high. This happens, for instance, as mentioned above, in centrally cleared markets when Clearing Members add, on top of the ones made by CCPs, additional margin requirements purely based on discretionary credit assessment decision which is not transparent or predictable for their client, the non-bank market participant. Flexibility of eligible collateral and transparency and predictability of margin requirements are important considerations, particularly for Clearing Member clients who include NBFIs and other non-financial market participants who may not have as much ready access to cash to fund margin calls and could mitigate risks of widespread selling of non-cash assets to meet such margin calls.

Recommendation 3: sets out the need for regular reviews of liquidity risk frameworks to ensure on-going effectiveness in mitigating liquidity risk exposures to spikes in margin and collateral calls, including during times of stress.

We also agree that this recommendation is an extremely effective practice and that NBFIs and many other non-financial market participants have increased efforts to continuously review their liquidity risk framework, especially by using lessons learnt from recent markets events.

Recommendation 4 sets out the need for conducting liquidity stress tests with respect to margin and collateral calls to identify the sources of liquidity strains and ensure the calibration of adequate, diverse and reliable sources of liquidity and collateral, consistent with market participants' risk appetite.

This recommendation describes the best practice that NBFIs (many other non-financial market participants not in scope of the recommendations) have already in place or are striving to implement. It belongs to the standard "business as usual" liquidity planning that Treasury Departments of companies have to run on a regular basis. Margins and Collateral represent indeed one of the main cash flows that NBFIs and other non-financial market participants have to plan and manage on a daily basis. With the continuous improvement of framework and processes that have been triggered by the recent crisis, many market participants have set up specific escalation and decision making processes to better respond to changing market conditions that cause high impact on liquidity, including the different solutions to be implemented (e.g., immediate reduction

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or close-out of positions, extraordinary credit lines granted by commercial banks, accessing to additional further liquidity sources, normally “dormant” during normal market conditions).

Recommendation 5 calls for liquidity stress tests to cover a range of extreme but plausible scenarios, including both backward-looking and hypothetical.

As indicated above, the success of such a practice is highly dependent on:

- The accessibility and user friendliness of simulations tools provided by CCP and/or Clearing Members so that exercise can be carried out along the whole process value chain of the margin calculation.
- The highest level of transparency of margin calculation and the lowest level of discretionary calculations.
- Regular exchanges with other market participants on OTC Collateral Management side. Energy Traders Europe has been investing significant effort to ensure that regular and effective exchanges between our members lead to the sharing and the development of best practices on such matters.
- Any resulting regulations giving enough flexibility to ensure that extreme but plausible scenarios are developed in a manner that is appropriate, credible, and relevant to an NBFIs’ own business and risk profile.

Recommendation 6 sets out the need for resilient and effective operational processes and collateral management practices.

Recommendation 6 belongs to the standard of processes already implemented and/or under further development by many the Energy Traders Europe, including both NBFIs and many of those that are non-financial market participants and therefore not directly covered by the recommendations.

The frequency of the monitoring and simulation of margin and collateral requirements is also dependent on the size of activity of each company. However, the problematic practice of issuing unscheduled extraordinary Variation Margin Calls (in centrally cleared markets) is unknown for OTC Collateral Management between OTC Counterparties, even in extreme market scenarios.

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Except for those NBFIs and other non-financial market participants which, under certain conditions laid down by the European Market Infrastructure Regulation (EMIR) provisions, may opt for either centrally cleared or non-centrally cleared transactions, in voluntary clearing the restricted range of eligible collateral for cleared variation margin remains one of the bigger challenges. Therefore, moving positions from central clearing to bilateral markets should be considered as a solution to increase flexibility rather than a source of increased risk, especially in time of stress. On the other hand, as better described above, restricted collateral solutions, lack of transparency in CCP and Clearing Member margining practices, and unpredictable cleared margin requirements, would lead to increased liquidity risk.

CCPs need the discretion to raise margins during stressed periods to ensure they do not have non-collateralised risk; similarly, CMs increasingly deploy the ability to pass-through multiple intraday ad hoc and unscheduled VM calls to ensure that the risk that they are guaranteeing is adequately covered. It is worth noting, however, that there can be a timing mismatch between intra-day margin calls and circumstances where a Clearing Member has a large excess of Margin with a CCP and is not allowed to recall any margin back until the next day, adding to liquidity pressure.

Those intraday, ad hoc unscheduled VM calls create specific pressure on cash liquidity planning and sourcing, especially for NBFIs and other non-financial market participants who are direct Clearing Members or the clients of Clearing Members. They often, in fact, depend on the credit lines granted by their commercial banks to cover the amount; this can result in very challenging conditions especially considering the very short deadline to transfer the margin (~ 2 hours and sometimes very close to closing payment deadlines with commercial banks). Generally, market participants prefer scheduled intraday VM calls, as these are easier to predict, at least in terms of timing.

Nevertheless, given the possibility that a CCP makes unscheduled calls, guidelines should be also published which explain the conditions under which extraordinary VM calls are made and whether those are made across all participants or for specific participants only. In general, for scheduled and intraday ad hoc VM calls, CCPs should provide near-real-time transparency about the accumulated risk and the call thresholds for each participant, so that clients of Clearing Members, who may be NBFIs or other non-financial market counterparties, can anticipate the size of intraday VM and/or IM calls.

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Providing market participants with sufficient time can help with liquidity management. A notice period to meet intraday VM calls should be part of a CCP policy on intraday VM, developed in consultation with clearing participants. However, we acknowledge that the time between margin call and payment cannot be extremely long, otherwise CCPs would not be sufficiently covered against risk.

Maximum use of netting with other cash flows and more effective collateral excess should be applied by CCPs and CMs to reduce pressure on liquidity, especially when intraday ad hoc calls are scheduled as a result of elevated price volatility. In that situation, in fact, the client of CMs may have to respond to sudden multiple VM calls within a day without receiving any intraday return if the price direction changes during a specific business day. We believe that the full potential of netting with excess collateral, e.g. IM or other expected cash flow, should be considered and applied by the CCPs and the CMs.

As mentioned above, the pressure on liquidity planning and sourcing experienced during stressed markets in energy markets in 2022 was re-enforced by the increasing aversion to risk and capacity limitations of credit providers. These factors lead to a reduction of the activities of those entities in commodity markets during stressful times. This situation was made more challenging for NBFIs and other non-financial market participants because of the lack of transparency in CCP and Clearing Member margining practices.

FSB, in its report, refers to "beneficial collateral terms" as a set of advantages pertaining to bilateral OTC transactions over exchange-traded derivatives. Such advantages include a wider range of eligible collateral, and more visibility and predictability of margin requirements. Indeed, factors such as flexibility, transparency, and predictability are crucial for NBFIs and many other non-financial market participants which have limited or no immediate access to cash for margin calls.

Recommendation 7 sets out the need for sufficient levels of cash and readily available and diverse liquid assets and collateral arrangements to meet margin and collateral calls.

First, and to reiterate the answer to recommendation 4, NBFIs (and many other non-financial market participants) are continuously developing and improving their normal liquidity planning

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processes via, among other functions, their Treasury Departments. Margins and Collateral, managed on a daily basis, are represent one of the main cash flows that NBFIs and other non-financial market participants have to plan and process on a daily basis. The planning and disposal of enough liquidity and fluid reserves belong to those processes.

Considering the nature of their activity, their corporate status and the regulations they are subject to NBFIs, and many other non-financial market participants are very limited in the form of collateral that they can use to respond to margin and collateral management requirements, the large majority of which is paid/deposited in cash.

In centrally cleared markets in Europe, the European Market Infrastructure Regulation (EMIR), that entered into force initially more than 10 years ago, removed the possibility to post non-collateralised bank guarantees to CCPs (although this is hopefully resolved thanks to the revision of that same file). When EMIR will be finally confirmed and implemented, the possibility for NBFIs and other non-financial market participants to replace cash with non-collateralised bank guarantees for margins posting will allow the use of the liquidity released to respond to extraordinary calls.

Recommendation 8 sets out the need for active, transparent, and regular interactions with counterparties and third-party service providers in collateralised transactions.

As indicated in our response to question number 1, Energy Traders Europe promoted over the past 25 years the exchange of best practices between its members and developed industry standards covering processes around commodity trading I. Of relevance for this consultation, we focused on best practices on margin and OTC Collateral Management. Additionally, Energy Traders Europe holds regular contacts with key stakeholders like CCPs and CMs to raise awareness about the conditions and needs of market participants, including both NBFIs and non-financial market participants, with a particular focus on available information, tools and practices already existing or to be developed.

In centrally cleared markets, NBFIs and non-financial market participants also support stress tests organised by CCP and CM that simulate potential defaults of CM or market participants and their potential impact on market prices and resulting margin requirements.

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3. Is the focus of the FSB's policy recommendations on liquidity risk management and governance, stress testing and scenario design and collateral management practices appropriate? Are there any other areas the FSB should consider?

Risk management systems established by NBFIs (and many other non-financial market participants that are not in scope of the recommendations) include the necessity of monitoring the impact of activity on liquidity. This is done by monitoring and simulating the impact of market price scenarios on margin and collateral requirements, to ensure a proper liquidity planning on one side, and liquidity preparedness on the other one. The latter regards funding resources to respond to potentially rapidly changing market conditions to higher volatility and price spikes.

As indicated above, the success of a continuous improvement and re-enforcement of NBFIs and many other non-financial market participants conditions highly depends on the implementation of recommendations made by different organisations, such as BIS-IOSCO especially for what concerns:

- a full transparency on margin model used and applied by CCP.
- a full disclosure of Clearing Members potential transformation of CCP margin requirements.
- A revision of the intraday unscheduled Variation Margin Calls, whose usage should be avoided without having considered any potential nettings, for example vs. existing margin excess, considering that NBFIs and many other non-financial market participants are operationally limited, especially in terms of time, to process intraday payments. Therefore, even in circumstances where NBFIs (or other non-financial market participants) may have the most effective margin simulation tool installed, this would not resolve such an operational constraint.

As previously remarked, Energy Traders Europe is constantly seeking exchange and cooperation with key stakeholders, including NBFIs, CCPs, and policymakers with the aim to find solutions and improve liquidity preparedness.

We call, therefore, on FSB to explore and consider methods to broaden the range of eligible collateral, without over relying on cash to fulfil margin requirements.

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4. Is the approach to proportionality and materiality clear for all non-bank market participants?

Our general observation is that proportionality is an important factor because some NBFIs, as well as other non-financial market participants, may depend on margin or collateral service providers, while some others may develop their own solutions. Nevertheless, both strongly aim to understand the impact of margin and collateral requirements into liquidity planning and related preparedness.

The frequency of review of the liquidity preparedness and running of stress tests would heavily depend on the size of activity covered and the risk and liquidity appetite of NBFIs.

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Section 3.1

Section 3.1 sets out key elements of a liquidity risk management framework to identify, monitor and manage liquidity risk exposures arising from margin and collateral calls.

5. Are these sufficiently clear for all non-bank market participants?

Energy Traders Europe fully understands the recommended risk management framework to identify, monitor and manage liquidity risk exposures arising from margin and collateral calls. Most of these recommendations are part of the risk management system in place and Energy Traders Europe use all available resources to exchange with each other (collateral) and with key partners, such as CCPs or CMs (margin). This aims to continuously improve transparency, predictability, and liquidity preparedness and this prior to the extreme market conditions experienced over the last few years.

However, as regards the recommendation to "take into consideration the risk management practices of its counterparties" Energy Traders Europe notes that while an individual NBFIs may be able to understand in broad terms what practices its counterparties have to manage risk, it is regulators who have access to data which should enable them to develop an overall market view. Regulators already have access to a significant amount of market data.

Section 3.2

6. Are the recommendations on liquidity stress testing and scenario design with respect to margin and collateral calls clear and sufficiently specified?

Yes, as Energy Traders Europe, we believe that the recommendations are sufficiently described. We, in fact, through the committees and the different groups, have been continuously addressing how to improve stress testing and scenario needs, which must be, of course, designed, developed and implemented hand in hand with the support of CCP and CM in centrally cleared markets. They also very much focus on the exchange of best practices and development of market wide practices are better described in above paragraphs.

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7. Are there any jurisdictional or sector-specific differences that are not accounted for in the recommendations?

Due to the lack of common frameworks and agreements based on which Clearing Members (CMs) and their clients operate, as Energy Traders Europe, we do believe that clients (including both NBFIs and other non-financial market participants) must have access to any measures which may help them with the fulfilment of their business obligations towards CMs. The design of simulators should also consider that the same will be used for different functions and by departments. The latter have different requirements. For instance, while the Operations department oversees payments, the Treasury one seeks to anticipate liquidity requirements, and the Risk Management department focuses on stress results. Despite that, we believe that the ability to anticipate liquidity requirements is relevant for all the above departments and is therefore key.

Section 3.3

8. Collateral readiness at the right time, quality and location is a critical aspect of effective liquidity preparedness for spikes in margin and collateral calls to mitigate the risk of having to liquidate collateral under stressed market conditions. Do the FSB's recommendations in Section 3.3 address all key elements required to be effective in mitigating liquidity risk arising from margin and collateral calls?

The operational readiness for monitoring and preparing for extraordinary margin or collateral is of course related to well-established risk management system processes and technology. Accessibility to them must be tested regularly; the access to back-up solutions can be very individual and relies on bilateral negotiations with, for instance, collateral providers such as commercial banks or margin or collateral technologies (software providers).

The majority of NBFIs and other non-financial market participants are aware that Counterparties may require (unscheduled) intraday margin calls and the related mechanisms and deadlines. This is, in fact, described in the rulebooks of CCP, and reflected in the terms of the clearing services of the Clearing Members.

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Not only the rules of centrally cleared markets offer a high level of standardisation across markets but the bilateral collateral agreements are also designed and follow market wide standards followed by market participants who adhere to these standard agreements, such as the Energy Traders Europe and ISDA ones. The collateral agreements foresee the necessity for counterparties to exchange information especially and among others to resolve collateral disputes.

9. Are there any material challenges to collateral management practices that some non-bank market participants may face that should be considered?

Collateral Management practices already follow market wide standard with regards to the monitoring and frequency of collateral calculations, rules around dispute or further exchange of information between counterparties that aim to ensure a smooth collateral process.

Over the past few years, Energy Traders Europe has been facilitating several committees and working groups that allow NBFIs and other non-financial market participants to design and develop market standards, create a forum to exchange on best practices concerning margin and collateral monitoring, replication and simulation and simulating.

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Energy Traders Europe's response to the CPMI–IOSCO discussion paper "Streamlining variation margin in centrally cleared markets – examples of effective practices"

Overarching questions

- 1. Do you agree that the eight effective practices identified in this report foster market participants' preparedness for above-average VM calls through the efficient collection and distribution of VM in centrally cleared markets?**

Energy Traders Europe members, the majority of whom are clients of Clearing Members (CMs) when acting on centrally cleared commodity markets, and in rare exceptions act as CMs themselves, welcome the proposed practices which are consistent with what was asked for in previous consultations. Energy Traders Europe had, indeed, already expressed the strong wish for both central counterparties (CCPs) and CMs to calculate any margin requirements, may it be initial margin (IM) or variation margin (VM) more transparent and make more efforts to assist clients of CMs, by increasing the ability to predict VM calls.

Higher governance is necessary to find proper alternatives to the issuance of – unscheduled – intraday (ITD) ad hoc VM calls within a business day. This is particularly true in situations where the applied IM parameters are not adequate to cover the observed market, in the event of extreme price spikes during a specific trading day. CCPs issue those extraordinary VM calls to CMs which in most cases forward them 1:1 to their clients. Market participants, therefore, incur serious operational issues in responding to those calls, especially due to the magnitude of the amounts and the related very short payment deadlines. Additionally, market participants depend on the ability of their commercial banks to meet those extraordinary VM calls.

The application and forwarding of those ITD ad hoc VM calls are also questionable given that the extreme price movement, observed within the first hours of trading, may go in the other direction by the close of business. In this case, the extraordinary VM calls create unnecessary pressure on cash liquidity management for CM and their clients.

CCPs need the discretion to raise margins during stressed periods to ensure they do not have uncollateralised risk; similarly, CMs increasingly deploy the ability to pass-through multiple ITD ad hoc VM calls to ensure that the risk that they are guaranteeing is adequately covered. Those intraday ad hoc VM calls create specific pressure on cash liquidity planning and sourcing, especially for non-financial institutions. They depend on the credit lines granted by their commercial banks for what concerns the amount, especially considering

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the very short deadline to transfer the margin (~ 2 hours). Generally, market participants prefer scheduled intraday VM calls, as these are easier to predict, at least in terms of timing.

Nevertheless, given the possibility that a CCP makes unscheduled calls, guidelines should be also published which explain the conditions under which extraordinary VM calls are made and whether those are made across all participants or for specific participants only. In general, for scheduled and ITD ad hoc VM calls, CCPs should provide near-real-time transparency about the accumulated risk and the call thresholds to each participant, so that all participants can anticipate the size of intraday VM and/or IM calls.

Providing market participants with sufficient time can help with liquidity management. A notice period to meet ITD VM calls should be part of a CCP policy on ITD VM, developed in consultation with clearing participants. We however note that the time between margin call and payment cannot be too long, otherwise the CCP would not be sufficiently covered against risk.

2. Are there any other effective practices, mechanisms or changes that would streamline VM processes in centrally cleared markets which have not been covered in this report? If so, please describe such practices.

In the commodity and energy centrally cleared environment, cash remains the main collateral form that CM clients use to post VM calls. The experience made in centrally cleared markets in commodity area is that under normal market conditions, margin calls made by CCP and passed through by CM to their clients follow a clear schedule defined in the rules of the CCP and in the clearing services agreements made between the CMs and their clients.

In most cases and for all major CCPs:

- VM calls are issued in the morning of a specific Business Day (BD), based on an EoD margin calculation of the previous business day (BD-1) and are due by the Clients on the same day (BD) around lunchtime. Therefore a few hours after CMs have delivered themselves the margin due to the CCP (in the morning of that BD).
- VM calculations (credit or debit) are netted against any other type of cash flow expected on the same BD, e.g. IM adjustments due to positions or parameter changes, settlements, fees, or any other rebates.

The most common practice is to proceed with netting of margin cash flow per currency, but some CMs even offer margin accounts and related requirements consolidated into one single base currency which means even a cross-currency netting of daily margin requirements and other cash flow.

As indicated in the results of the survey, CCPs highlighted that their legal frameworks were quite different and, because of some regulations, CCPs either are not required (and

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therefore may be unable) to distinguish between client and house accounts or are prohibited from netting VM requirements between a CM's house and client accounts. Some CCPs cite operational barriers to distinguish between CMs' house and client flows.

Knowing this, the margin collected from the CMs and passed through to the CCP may result in an excess of collateral held by the CCPs or the CMs. In the case of elevated volatility, the excess of collateral held at any level could be used to cover unexpected observed risks and therefore prevent the issuance of ITD ad hoc VM calls and, at the same time, avoid unnecessary pressure made on liquidity sourcing and planning for Clients of CMs.

Effective practices

3. For each effective practice identified in this report:

a. Do you agree that it is an effective practice?

Energy Traders Europe's members believe that among the eight practices identified in this report, most of them are certainly effective to foster market participants' preparedness via higher predictability for above-average VM calls through the efficient collection and distribution of VM in centrally cleared markets.

In particular, we considered effective the following ones:

- Increased transparency and predictability about ITD Margin Calls;
- Sufficient time on ITD Calls payments;
- Offsetting of VM Calls with other payment flows;
- Pass-through of VM;
- Information regarding the CCP's processes and timing for ITD VM calls;
- Feedback on the CCP's VM practices from its participants;
- Transparency to clients regarding the CM's processes and timing of ITD VM calls;

We see also the necessity to increase transparency and increase usage of excess collateral for ITD VM obligations and we will further explain the details of our requests in the answers below.

b. What are the pros and cons (including unintended consequences) of the effective practice?

Increased transparency and predictability about ITD Margin Calls

This practice could, indeed, help Clearing Members (CMs) to better arrange for frameworks with their clients on how to provide payments or other collateral and to lower overall funding costs and/or pressure on liquidity planning and sourcing.

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Altogether, the number of ITD calls could increase though – at least for the CMs – leading to more workload which might offset funding benefits.

Sufficient time on ITD Calls payments

Funding deadlines are crucial, especially in stressed market conditions. Particularly, as CMs tend to pass on calls to clients, less pressure on CMs would result in less burden for clients and, therefore, more flexible solutions.

Maximum use of netting with other cash flows and more effective collateral excess should be applied by CCP and CMs to reduce pressure on liquidity, especially when ITD ad hoc calls are scheduled due to elevated price volatility. In that situation, in fact, the client of CMs may have to respond to sudden multiple VM calls within a day without receiving any ITD return if the price direction changes during a specific business day. We believe that the full potential of netting with excess collateral e.g. IM or other expected cash flow should be looked at and applied by the CCPs and the CMs.

Offsetting of VM Calls with other payment flows

Energy Traders Europe members believe that offsetting VM Calls with other payment flows might cause fewer monetary bookings between CMs and CCPs and thus optimise CMs funding costs towards their clients. Additionally, this practice might also be effective in beneficially offsetting scheduled ITD calls.

Pass-through of VM

Pass-through of VM is a key requirement for both CMs and Clients to get relief on liquidity pressure resulting from their commodity trading positions.

This will be particularly effective in very volatile market conditions where prices surge in the morning but then in the afternoon, in line with the opening of the overseas markets, might drop down. In these conditions, CMs see a high rate of cash outflows whereas the "refund" only happens the next day. Because CMs pass on calls to clients, these latter can find themselves in a particularly critical situation, which may involve significant funding costs.

Excess collateral for ITD VM obligations

As previously stated, we are not completely sure about the effectiveness of this practice. Where feasible and if regulation allows, we agree that CCPs should certainly gain more freedom in using excess collateral. However, as noted and as commonly known in the market, major stakes of collateral are pledged as non-cash collateral means.

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It should be addressed if certain positions can be used as a "guarantee" for outstanding margin calls and thus buffer liquidity stress.

Information regarding the CCP's processes and timing for ITD VM calls

As already broadly remarked by Energy Traders Europe members, a major increase in transparency about CCP processes, in particular when affecting Clients of CMs via any kind of pass-through arrangements, is needed.

Feedback on the CCP's VM practices from its participants

Where appropriate, market representatives should be consulted to get further insights. In addition, any changes to the market environments will lead to a change in how clients and CMs look at certain aspects (e.g.: similarly to what happened with the need to better understand Initial Margin setups).

As clients of CMs, we would be glad to attend and support existing or newly created user discussion forums and to support the development of solutions on more effective margin practices. Those latter should indeed aim at imposing a limited burden for CCP and CM and at mitigating cash liquidity risks arising from short-term extraordinary margin calls. This can be done by improving existing tools, designing new functionalities enriched with CMs Client aggregated information in order that CCP data is broken down to client data level.

Transparency to clients regarding the CM's processes and timing of ITD VM calls

Due to the lack of common frameworks/agreements based on which CMs and their Clients operate, as Energy Traders Europe we do believe that Clients must have access to any measures which may help them with the fulfillment of their business obligations towards CMs.

The design of simulators should also consider that simulators will be used by different functions/departments. Different departments will have different requirements: For instance, the Operations department wants to see payments, the Treasury wants to anticipate liquidity requirements and Risk Management is interested in stress results. We however believe that functionality to anticipate liquidity requirements is relevant for all the above departments and is therefore absolutely key.

User-friendliness is paramount. Explanations within the tool of the different components of Margin (at the close of business and Intra-day), including margin, additional CCP Margin Components and their triggers.

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The simulator has a key purpose to help the prediction of possible outcomes liquidity-wise and to help the user understand margining (COB and Intra-day). Simulators should be provided via APIs, as this would allow firms to generate a fuller picture of shocks stemming from several CCPs and be able to combine these simulators with their margin simulators or dedicated VM call forecast calculation.

c. Please discuss any drawbacks or hurdles to implementing the effective practice.

Increased transparency and predictability about ITD Margin Calls

As Energy Traders Europe, we believe that issuing regulatory guidance for Clearing Houses (CHs) is necessary. This will facilitate the implementation of that effective practice while allowing the fulfilment of their obligation to secure sufficient risk coverage. Increased scheduled calls should be accompanied by lower ad-hoc calls. Consequently, for the practice to be fully effective, the aforementioned guidance needs to highlight the maximum number of ad-hoc calls “allowed” during a tighter scheduled framework.

Sufficient time on ITD Calls payments

According to our opinion, longer payment deadlines would, theoretically, expose CCPs from more short term (minutes to hours) to uncovered risk exposure, provided that outstanding margin calls also exceed excess collateral provided by the CMs.

Offsetting of VM Calls with other payment flows

To be fully effective, we believe that this practice requires an in-depth analysis as well as a well-designed framework which will allow alignment between different products and booking categories.

Pass-through of VM

In line with other proposals on effective practices (e.g. more scheduled calls and more lead time of payment requirements) CCPs might be unable to pass through – positive – VM payments to respective CMs given that they might still wait for other CMs to make underlying payments. We, therefore, believe that the regulation should lay down that CCPs have to pay out in advance which would, overall, make them under-secured. Additionally, CCPs should also not be obliged to transform collaterals or other assets to provide pass-through VM to CMs. This practice might, in fact, lead to scenarios where CCPs can't fully pay VMs but would need to do so on pro-rata basis.

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Information regarding the CCP's processes and timing for ITD VM calls

We don't see as an issue the request for higher degrees of documentation and publication of procedures, given that those same are certainly already documented within each CCP.

Transparency to clients regarding the CM's processes and timing of ITD VM calls

Many Clients already have bilateral clearing service agreements in place with their CMs to address various aspects of cash flow netting, margin schedules and payment deadlines, collateral transformation, and other tools to mitigate the risks and burdens out of cleared positions.

d. Are there better, more efficient, more cost-effective alternatives to the effective practices?

As indicated above Energy Traders Europe members are happy to support existing or newly created user discussion forums in cooperation with CCPs and CMs to make sure that best practices around netting of cash flows, usage of collateral excess or solution for non-cash collateral can be developed as a market standard to best respond to the demand on more effective margin practices.

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