ISDA Response to the ESMA Consultation Paper
"EMIR 3 draft RTS on Margin Transparency requirements"

Responses to ESMA's questions

Q1: Do you agree with the proposed information to be provided by the CCP on its margin model design and operations? Do you have other proposals as to which information could be provided under point (a) of Article 38(7) of EMIR?

Simplification and Burden Reduction

Whilst level 1 is prescriptive, goes above the BCBS-CPMI-IOSCO Final Report "Transparency and responsiveness of initial margin in centrally cleared markets – review and policy proposals" and includes a number of cumbersome requirements for both CCPs and CSPs, we propose approaches for implementation which avoid impractical and overly burdensome requirements whilst addressing the overall objective of increased transparency.

It would be more efficient if CCPs provided model documentation directly to clients, ideally via public disclosure, as considered by ESMA in the cost/benefit analysis. Many EU CCPs already provide such public disclosure.

The scope of information is sufficient

We are broadly supportive of the proposed information to be provided by the CCP on its margin model design and operations.

We believe that the requirement to CCP model disclosure to be "*sufficient to enable the clearing member to obtain an in-depth understanding of how the CCP's margin model works*" is clear enough and note that many EU CCPs already share publicly detailed information on their margin models.

CCPs should make documentation public or share with clients directly

We believe that CCPs should make information about their margin models publicly available as ESMA envisages in Section 6.3.1 of Annex III (Cost Benefit Analysis). If this is not possible, then CCPs should be required to make the information available directly to clients on a permissioned basis via a portal. This is currently how some CCPs provide this information. A publicly available or permissioned portal would enable clearing members and clients to have access to the information directly from the source and removes the need for clearing

members to act as middlemen to pass this information on to clients This in turn, would enhance the ease of access for clients and enhance the speed and timeliness of accessing that information. In addition, we note that CSPs cannot and should not be required to opine on CCP documentation given that CCPs are ultimately responsible for this information.

This approach would help achieve the EU's goal of simplification and streamlining in several ways:

- First, it would reduce duplication of effort by eliminating the need for CSPs to repackage or interpret CCP model details, which can be complex and change frequently. In practice, however, CSP disclosures cannot be updated immediately when a change occurs at CCP level, meaning there would inevitably be a time lag before clients receive the latest information. This lag is a natural limitation of the process and can run counter to the objective of transparency and comparability.
- Second, it would ensure consistency and accuracy of information, as clients would receive data directly from the source, minimising the risk of distortion or miscommunication.
- Third, it would avoid fragmentation in how different CSPs interpret or deliver this information, which can lead to confusion among clients and impair comparability.
- Finally, by placing the obligation for disclosure where the knowledge and control actually reside, with the CCP, the system becomes more efficient and transparent overall — supporting better-informed client decision-making while avoiding unnecessary operational burden on intermediaries.

Many EU CCPs already post detailed information about their models publicly available on their websites. Please find a table below with some examples:

CCP	Information available
Nasdaq Clearing	https://www.nasdaq.com/solutions/nasdaq-clearing-margining-methodology
CBOE Clear	https://clear.cboe.com/europe/resources/documentation/risk_management and the links on that page
ECC	https://www.ecc.de/en/risk-management/margining
Eurex Clearing	Prisma brochure: Eurex Clearing Prisma RBM brochure: Risk-based Margining at Eurex In addition, members are provided with more detailed replication documents in the members section of the website.
KDPW	Organised markets: SPAN – margin calculation methodology - KDPW_CCP OTC: Expected Shortfall - calculation initial margin - KDPW_CCP (the points to Appendix 6 of dr-otc-16-07-2024.pdf available here Rules and regulations - KDPW_CCP)
LCH	Information on member section of the website
ICE Clear Europe	https://www.ice.com/clear-europe/risk-management#irm1margin https://www.ice.com/clear-europe/regulation https://www.theice.com/fees
CCP Austria	Margin Calculation • CCPA Margin_Simulation_Tool_Securities_Market.xlsx

CCP	Information available
	Margin Calculation Methodology
Euronext Clearing (ex. CC&G)	Risk Management | Euronext Clearing
Keler CCP	Link to a margin calculator: KELER CCP - Initial margin calculator KELER CCP - Initial Margin for an explanation and further links.
BME Clearing	MEFFCOM2 | BMEClearing , HVAR | BMEClearing, Initial Margin | BMEClearing ,as well as FAQ document Microsoft Word - FAQs BME CLEARING all referring to "Procedure for Initial Margin Calculation" for each segment: C-ENE-2024-08-Procedure-for-Initial-Margin-calculation.pdf C-RV-2018_17_Procedure_for_Margin_Calculation.pdf https://www.bmeclearing.es/docs/Normativa/ing/circulares/2022/C-DF-2022_12_Procedure_for_Margin_Calculation.pdf C-VRF-2024-02-Procedure-for-Margin-Calculation.pdf .
OMI Clear	High level description on Margining model | OMIClear

The proposed changes cannot be put into practice without an implementation period

EMIR 3.0 and this RTS will lead to significant changes both at CCPs and CSPs, which will take time to be implemented. Also, for CSPs to fulfil their obligations, they will be dependent on correct and timely implementation by CCPs and can start their work only after it becomes clear what CCPs will provide. We would urge ESMA to allow suitable implementation periods for both CCPs and CSPs. If ESMA believes level 1 does not cover an implementation period, it should consider a forbearance statement to ensure efficient resource deployment across market participants. Article 38 requires significant efforts from CCPs and CSPs, which cannot realistically be completed in 20 days. We believe an appropriate implementation period would be 18 months.

Disclaimer

This paper covers the positions of our members on the buy-side and sell-side. The paper does not reflect the views of many CCPs, and many of the CCPs are in disagreement with the views.

Q2: Do you agree with the proposed information to be provided by the CCP on the margin model assumptions and limitations? Do you have other proposals as to which information could be provided under point (b) of Article 38(7) of EMIR?

We agree with the proposed requirements.

Q3: Do you agree with the proposal with regard to the model documentation? Do you have other proposals as to which documents could be provided under point (c) of Article 38(7) of EMIR?

We agree with the proposed requirements.

Q4: Do you agree with the proposed requirements and the type of output for the simulation tool to be provided by CCPs? Are there any other requirements for the CCP margin simulation tool which should be taken into account, such as legal mechanisms to ensure confidentiality?

Simplification and Burden Reduction

Whilst level 1 is prescriptive, goes above the BCBS-CPMI-IOSCO Final Report "Transparency and responsiveness of initial margin in centrally cleared markets – review and policy proposals" and includes a number of cumbersome requirements for both CCPs and CSPs, we propose approaches for implementation which avoid impractical and overly burdensome requirements whilst addressing the overall objective of increased transparency.

Level 1 establishes an architecture whereby CCPs provide simulation tools to CSPs, and CSPs in turn provide simulations to clients. While we recognise that this framework is mandated in legislation, we believe that the regulatory objectives of the Level 1 text can be achieved in a more proportionate manner. For most clients and under most conditions, clients would be served better by having access to the CCP simulator.

Summary

We welcome that simulators should include material add-ons.

And while we agree that it would be most efficient if CCPs could use stress scenarios that they already use for default fund sizing and liquidity stress testing, we note that the response function of IM is path dependent and these scenarios need to be upgraded to provide day-by-day market moved during the stress event. For easier understanding, we propose to focus on historical instead of hypothetical scenarios.

Scope of information

We are broadly in agreement with the proposed requirements and the type of output for the simulation tool to be provided by CCPs.

On average, only 7% of clients pay additional margin

A sample of 7 ISDA members that provide clearing services in the EU showed that, on average across the responding firms, only 7% of clients pay a margin multiplier or any form of additional margin requirements higher than CCP margin requirements.

CCPs should make simulators public or share with clients directly

As the majority of clients do not pay additional margin above the CCP margin, the CCP simulator will cover the majority of margin simulation requirements, both for clearing members and also the vast majority of clients. We would like to see CCPs make simulation tool outputs readily available to the public, or at the very least ensure they can be accessed without having to go through clearing member facilitation. Making this information openly accessible would improve transparency, support comparability, and boost operational efficiency – particularly for clients using several CSPs/CCPs.

Simulation tools' outputs should include most material add-ons

Article 4, subparagraph 1 of the proposed RTS states that the output of the simulation tool should include the core margin and "*each of the margin add-ons that are related to the portfolio where the new transactions will be margined.*"

We note that the use case, especially for clients, will not only be to simulate the impact of adding new transactions to their cleared portfolio, but also to establish how margin requirements could change under certain stress scenarios, for example, what would happen to IM under a repeat of the COVID shock. For such queries, it would be helpful if the simulation tools also include add-ons like additional margin linked to stress losses.

In relation to margin add-ons, paragraph 24 of the consultation suggests that "*CCP should provide the type of risks covered in the simulation output.*" We believe that this information might confuse the output of the simulation tool and would be better shared as part of the model documentation. For example, the risk covered by a concentration add-on does not change from simulation to simulation.

At many CCPs, IM is path dependent and cannot be simulated with one-step scenarios

We see a significant problem in the specification of scenarios: the consultation and the draft RTS proposed "*that CCPs should include hypothetical and historical scenarios based on the*

framework used for identifying extreme but plausible market conditions, in accordance with Chapter VII of the Commission Delegated Regulation 153/2013."

This approach, however, would not yield usable output from the simulator, as most stress scenarios employed by CCPs comprise only a single step: transitioning from BAU to stressed market conditions in one go. For purposes such as sizing the default fund or determining liquidity requirements, these one-step scenarios are adequate, as the focus of default fund sizing is the absolute loss in the stress scenario.

However, the response function of IM is path-dependent at many CCPs: Those CCPs' models will produce significantly different IM requirements based on the trajectory of market stress developments. Therefore, IM simulators required scenarios that "replay" day-by-day how the stress event of a scenario developed and uses this time-series as input for the margin model. We understand that some CCPs already use multi-step scenarios for liquidity stress testing.

Most systemically important CCPs, whose margin levels are particularly relevant for clearing users, employ some form of filtered historical value-at-risk (VaR) model to calculate their IM. These models have three pathways through which the different trajectories of a shock can influence margin levels:

1. The number of stressed scenarios influencing the VaR calculation.
2. The impact on the volatility estimate used for historical filtering.
3. The compounding effect of overlapping returns for margin periods of risk longer than one day.

We note that anti-procyclicality (APC) tools employed by the CCP can dampen the day-by-day reactiveness of a model to periods of stress somewhat. However, even in the presence of APC tools, a stress scenario that consists of only one step would be dampened more by an APC tool than a stressed that "replays" the crisis day by day. CCPs therefore need to simulate stress scenarios that are "multi-step", i.e., simulate the stress period day by day. For instance, to use as an example the USD 1y swap rate during the COVID-19 shock, it is not sufficient to simulate the overall drop of two-thirds between 21 February and 9 March 2020 (from 1.513% to 0.5094%), but the market moves day by day between these two dates. Likewise, instead of simulation a one-day shock of 97bp of 10Y gilts yields during the UK gilt crisis, the stress scenario would need to simulate the market moves between 22 September and 10 October 2022. The length of the timeseries depends on the margin model and the APC tools utilised by the CCP. CCPs need to use a timeseries that is sufficient to produce the largest IM that would have been called in the stress scenario in question[1].

[1] For instance, for some CCPs, the path of previous large market shocks feeding through their IM model looked like this:

- For a couple days to up to 2 weeks after market vol increases there is little change in IM as the model is still below the floor

For clarity, we do not oppose the choice of the scenarios that CCPs use for default fund sizing. We expect that many CCPs will utilise stress scenarios that mirror the Great Financial Crisis or the COVID shock. However, to simulate the impact on IM, these scenarios must include the day-by-day history as the stress events unfolded if the CCP is using a model that is path dependent. These scenarios would need to be extended to include multi-step day by day developments during the crisis. Sub-bullet (a)(ii) of the requirements for the market stress scenarios for the CCP margin simulation tool in the annex to the draft RTS states "*They shall include appropriate periods of stress impacting market volatility and correlations of risk factors captured by initial margin models*". We believe that this could already acknowledge that the scenarios need to include a "period", not just one step.

This is not just a theoretical difference that has a negligible impact in practice. This is extremely material, and the magnitude of difference between the margin increase simulating the true development of a stress compared to a "one-step" scenario can be two to three times. Therefore, using "one-step" CCP stress scenarios for simulators of CCPs that use path dependent IM models would give regulators and market participants false comfort and would lead to market participants being systematically underprepared for liquidity shocks.

More detail can be found in our paper "Stress scenarios for forward looking CCP initial margin simulators".

Margin amounts are not additive in portfolio-based margin models

Paragraph 22 of the consultation recommends separating the initial margin for existing positions from margin required for new transactions. We agree, but note that many CCP models don't specify a margin amount for new transactions. Instead, they provide a margin requirement for the entire portfolio, which may be lower than the margin for existing transactions alone. While CCPs can show the difference between the margin for existing transactions and the total portfolio, this difference isn't the margin for new transactions.

For liquidity preparedness, hypothetical scenarios are less useful

Clearing participants (clearing members and their clients) that use margin simulators for their liquidity planning are likely to prefer stress scenarios that they can relate to and that are available at most CCPs. These will be very likely be historical stress scenarios, such as the great financial crisis, the COVID-19 shock or the 2022 commodities crisis. On the other hand, hypothetical scenarios are specific to each CCP and clearing participants would not be able

- Around 1 week after shock, IM starts increasing – there is often a very pronounced lag as the "core" vol estimate needs to pass the margin floor
- Around 1 month after shock, IM increases for weeks as the new higher volatility regime feeds in
- Around 3months after the shock, IM returns to pre-shock levels as market volatility normalizes

to aggregate the output of these scenarios across the CCPs where they are member. Hypothetical scenarios might also be more abstract and therefore more difficult to relate to for less sophisticated users. We recommend for CCPs to provide the three historical stress scenarios above, plus one scenario that caused the largest IM stress at the CCP.

Simulating single transactions is unlikely to be meaningful, at least for futures

Paragraph 20 of the consultation states: *"Article 38(6) of EMIR requires a CCP to provide a simulation tool to its clearing members. This tool shall allow the clearing members to determine the amount of additional initial margin at portfolio level that the CCP might require upon the clearing of a new transaction, including a simulation of the margin requirements that they might be subject to under different scenarios. That tool shall only be accessible on a secured access basis,"*

While we acknowledge that this requirement comes from EMIR 3.0 level 1 text, we question if such a limited simulation is really meaningful, especially if it covers only one new trade and not a portfolio of new trades. Simulating only one new trade would only have a use case for very large single OTC transactions, which is not a common occurrence. For futures, such a simulator is unlikely to be used much. To be useful, it is important that the simulator is able to allow clients to easily upload existing portfolios, including those cleared at multiple clearers. The requirement itself should be categorised as Base Initial Margin and any Additional Margin charges, ideally distinguishable by the various types of charges considered by CCPs. We note that article 4 of the proposed RTS talks about "*2. The output of the simulation tool shall be available for additional transaction**s** in existing or hypothetical portfolios of the clearing member using the tool*". This wording should be kept and not be changed to the singular as in paragraph 20 of the consultation. As mentioned elsewhere, simulation tools should be available to clearing members and clients.

The proposed changes cannot be put into practice without an implementation period

EMIR 3.0 and this RTS will lead to significant changes both at CCPs and CSPs, which will take time to be implemented. Also, for CSPs to fulfil their obligations, they will be dependent on correct and timely implementation by CCPs and can start their work only after it becomes clear what CCPs will provide. We would urge ESMA to allow suitable implementation periods for both CCPs and CSPs. If ESMA believes level 1 does not cover an implementation period, it should consider a forbearance statement to ensure efficient resource deployment across market participants. Article 38 requires significant efforts from CCPs and CSPs, which cannot realistically be completed in 20 days. We believe an appropriate implementation period would be 18 months.

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Q5: Do you agree with the proposed information to be shared by CSPs on their margin models? Should any other element be taken into account?

No, ISDA does not agree with the proposed information to be shared by CSPs on their margin models.

Simplification and Burden Reduction

Whilst the level 1 text sets out some requirements for CSP margin transparency, we propose approaching the implementation of these rules in a proportionate way that avoids impractical and overly burdensome requirements whilst addressing the overall objective of increased transparency for clients.

ESMA should not mechanically copy CCP requirements to CSPs, but recognise the different market position of CSPs compared to CCPs

ISDA members support providing end-users with adequate transparency to help them estimate their liquidity requirements under stressed market conditions.

However, we respectfully challenge the assumptions made in both paragraph 4 and paragraph 30 of the consultation. In paragraph 4, ESMA suggests that the new requirements introduced under EMIR 3.0 for CSPs are "*broadly similar*" to those applicable to CCPs. In paragraph 30, ESMA further suggests that the information provided by CSPs to their clients should be "*comparable to*" the information provided by CCPs to clearing members.

In our view, ESMA's characterisation of CSPs' obligations is not supported by the Level 1 text. Article 38(7) imposes obligations on CCPs to publicly disclose comprehensive information, while Article 38(8) introduces a separate and more limited obligation on CSPs to provide certain information to their clients. The structure of EMIR is deliberate in keeping these responsibilities distinct, reflecting the fundamentally different roles of CCPs and CSPs. Suggesting that the obligations are "*broadly similar*" and that information should be "*comparable*" risks introducing a level of duplication and operational burden that was not foreseen in the Level 1 framework.

We therefore urge ESMA to ensure that the RTS reflects the clear distinction drawn in Level 1 between CCP and CSP obligations.

CSPs have varied business models and approaches to margining clients, even within the same institution. A CSP may have clients who pay only CCP margin, clients who have an add-on applied in addition to the CCP margin (often calculated as a multiplier of the CCP margin), clients subject to margin calls based on the CSP's own model for cleared exposures, or clients who post margin based on a model that includes, and nets between both cleared and uncleared exposures. The use of these different methods varies among CSPs.

On average, only 7% of clients pay additional margin

A sample of 7 ISDA members that provide clearing services in the EU showed that, on average across the responding firms, only 7% of clients pay a margin multiplier or any form of additional margin requirements higher than CCP margin requirements.

Access to the CCP simulator should therefore suffice for the majority of clients.

The proposals go above global guidance

The BCBS-CPMI-IOSCO Final Report "Transparency and responsiveness of initial margin in centrally cleared markets – review and policy proposals" (the Global Report) states that "*the Margin Group recognises that the modes by which margin add-ons are calculated can differ significantly from CCPs' own models (eg the CM identifies an appropriate multiplier and applies that to the CCP-calculated margin); there are equally important distinctions in the ways in which information is communicated or the ways in which decisions are made. Because of these differences, though the need for a similar level of transparency is important, the methods of achieving this transparency are likely to differ between the CCP and the CM levels.*" Unfortunately, we believe that the draft RTS copied too many of the CCP requirements and sought to apply them to CSPs, without taking the differences between the two into account.

For instance, Article 8 (2)(b) requires a CSP to provide its clients with information on "*the key indicators on the performance of additional margin requirements during normal and stressed market conditions.*" Such disclosure requirements are very relevant for a CCP, given the importance of ensuring that margin models consistently meet the required confidence intervals. In the case of CSPs, however, margin add-ons address factors such as credit risk, portfolio risk, leverage, and other client-specific considerations. Disclosing key indicators, if even possible, may expose internal credit risk management processes, which are generally confidential and not subject to disclosure in other settings. We propose to replace this with a requirement for CSPs that use additional margin for clients to disclose the types of factors considered when setting additional margin requirements.

Another example is the requirement in article 8 (3)(d) for a CSP that uses a different margin model from the CCP to provide pricing and market data sources. This is important information for clearing members of a CCP to know, as they underwrite the CCP's risk and

have an interest that the CCP uses suitable data to chieve the appropriate confidence interval. On the other hand, a CSP will often use proprietary market data coming from the firm's own markets. There is no need to share details of these pricing source with clients, other that the CSP using proprietary data.

Similar with article 8(3)(f), that requires a CSP with its own margin model to review the methodology and the calculation of the additional margins. As the client does not underwrite the CSPs losses if the CSP's margin model is undermargining the risk, review cycles are not relevant to the client, as long as this does not lead to changed margin levels.

The geographical scope needs to be clarified, especially for CSP requirements

The geographical applicability of these rules is ambiguous. Terms like CCP and CSP are broad and not confined to EU entities. However, EMIR typically does not have extraterritorial effects unless explicitly stated. We seek clarity on which CSPs the draft Regulatory Technical Standards (RTS) will apply to. Title IV of EMIR, which outlines the requirements for authorized CCPs and includes Article 38, discusses CCPs in general but applies only to authorized CCPs and Tier-2 CCPs. The scope concerning CCPs might be clarified through Articles 14 and 25, which differentiate between authorized and recognized CCPs and outline the distinct requirements for each. However, there are no equivalent mechanisms to clarify how these rules apply to clearing members or clients providing clearing services.

ESMA should clarify the geographical scope of the rules for CSP requirements. A majority of our members believe that the rules should cover only the provision of client clearing services to EU clients clearing at EU CCPs. A minority believes that the rules should cover only the provision of client clearing services for clients clearing at EU CCPs.

We propose to align the geographical scope in relation to the CCPs for which CSPs are required to provide or convey transparency with the geographical scope of the fee disclosure requirements, which are limited to EU CCPs.

CSPs cannot provide more transparency above what is provided by the CCP

For those CSPs that merely pass on CCP margin or simply apply an add-on, such as a multiplier, to CCP margin, it should be explicit that such CSPs are only required to point clients to CCP information. For example, for paragraph 34, we don't believe CSPs can/should opine on what would result in a review of a CCP margin model, unless this paragraph only refers to CSPs' models. Imposing CSPs as an intermediary between a CCP and the client will complicate the flow of information without any resulting benefit. Where appropriate, CSPs may be able to help put clients in touch with the relevant experts at the CCP but this should be the extent of the CSPs involvement.

In addition, CSPs cannot update disclosures in real time when CCPs make changes to their margin requirements. The lag is a natural limitation of the process and can run counter to

the objective of transparency and comparability for clients. It therefore reinforces the point that the obligation for disclosure must rest with CCPs themselves, who hold the most up-to-date information.

Margin calculated across cleared and uncleared exposures and across asset classes should not be in scope of article 38 transparency

Many CSPs—such as Prime Brokerage businesses—employ models that generate a single margin requirement encompassing both cleared and uncleared exposures. It remains unclear how simulation requirements would apply to these CSPs, given that their models do not exclusively address cleared exposures. In particular, if a CSP's model utilises the CCP margin as a minimum threshold, it could be contended that the model addresses only the uncleared exposures. Often, the agreement between client and CSP allows the CSP to withdraw the use of such models, and clients therefore would have to consider CCP margin requirements for their liquidity planning anyway.

Confidentiality needs to be protected in a competitive market

Also, proprietary models used by CSPs are more diverse than CCP margin models. While we understand that a client needs to know how the CSP model works in order for their liquidity planning, there might be issues with confidentiality if the CSP is required to share too much information about its model, especially if the client of a CSP is another CSP. In such cases, the use of information barriers might be appropriate.

"Transmit" should also mean "posting on website"

On a detailed note, the draft RTS requires CSPs to "transmit" information received from CCPs to their clients. We would like to clarify that "transmit" could also mean posting the information on the CSP's website in an area accessible to clients.

The proposed changes cannot be put into practice without an implementation period

EMIR 3.0 and this RTS will lead to significant changes both at CCPs and CSPs, which will take time to be implemented. Also, for CSPs to fulfil their obligations, they will be dependent on correct and timely implementation by CCPs and can start their work only after it becomes clear what CCPs will provide. We would urge ESMA to allow suitable implementation periods for both CCPs and CSPs. If ESMA believes level 1 does not cover an implementation period, it should consider a forbearance statement to ensure efficient resource deployment across market participants. Article 38 requires significant efforts from CCPs and CSPs, which cannot realistically be completed in 20 days. We believe an appropriate implementation period would be 18 months

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Q6: Do you agree with the proposals on the margin simulations to be provided by CSPs? Should there be any additional requirements?

Executive summary

ISDA members support providing end-users with adequate transparency to help them estimate their liquidity requirements under stressed market conditions. However, ISDA members disagree with ESMA's proposals regarding the simulation requirements and believe these requirements go above the BCBS-CPMI-IOSCO Final Report "Transparency and responsiveness of initial margin in centrally cleared markets – review and policy proposals". Instead, we propose that where CSPs base a client's margin on CCP margin (i.e. CCP margin only or CCP margin + CSP add-on), CSPs should be allowed to satisfy their requirement to provide simulations to clients by (i) directing clients to the CCP simulator tool, and (ii) provide information on the situations and conditions that might trigger additional margin. This would avoid unnecessary duplication, ensure consistency across the market, and still fully meet the transparency and comparability objective of Article 38(8)(b).

In addition, CSPs could provide worked hypothetical examples of how these factors could apply in practice by providing examples of 'If X occurs, then Y multiplier may be applied'. Where a client is actually charged a client-specific add-on, then we expect that a CSP can provide further information to a client about how that multiplier was arrived at, upon request, or provide historical illustrative examples.

Together, we believe this achieves the fundamental aim of enhancing transparency and comparability for clients while keeping clearing costs affordable and progressing simplification and burden reduction. This approach, which leverages CCP margin simulation information, best reflects market practice, as we note that a majority of ISDA CSPs apply CCP margin only or using a simple margin multiplier.

We have provided our more detailed views below.

On average, only 7% of clients pay additional margin

A sample of 7 ISDA members that provide clearing services in the EU showed that, on average across the responding firms, only 7% of clients pay a margin multiplier or any form of additional margin requirements higher than CCP margin requirements.

Summary: Appropriate transparency can be provided in less burdensome ways

Where the CSP uses the CCP margin model as the basis for the margin amounts called for cleared products from its clients, we do not see the value in providing clients with an additional 5 scenarios over and above those provided by the CCP. Art 38(d) of EMIR3.0 requires CSPs to provide a simulation of the margin requirements to which clients might be subject under different scenarios. There is no requirement in Art 38(d) for these scenarios to be either a) in addition to the scenarios provided by the CCP nor b) different to these scenarios. Where the CCP model is used as the basis of the margin collected by the CSP, these proposed additional simulations add no practical value, while incurring a substantial and disproportionate cost.

- For medium to large CSPs, the requirement to produce client specific scenarios will lead to thousands of scenarios. It is simply not feasible in practice for CSPs to develop tailored scenarios for each client's individual circumstances, especially if these simulations are not just descriptive statements like "If this happens, that might happen". This requirement will be very burdensome for CSPs and will result in a disproportionate cost compared to the benefit to be gained. As our quantitative analysis has shown, only a small number of clients pay additional margin.
- Furthermore, for (typically larger) clients which use multiple clearing brokers there is little to be gained from such simulations on a broker-by-broker basis since an individual CSP would not be able to see the client's entire portfolio. There are commercial service providers that offer suitable margin optimisation and prediction products, which would better serve the needs of clients.
- Where a CSP offers portfolio margining across a combination of (often offsetting) cleared and non-cleared products, it is possible such a model could result in a net margin calculation across the combined portfolio that is lower than the CCP margin calculation. However, in such circumstances, it is possible that the CSP calls the CCP margin amount regardless of their own internal cross product portfolio margin amount. In this case, the CSP should be considered to use the CCP margin model as the basis for its calculation for the products in scope of EMIR3.0.
- Therefore, where a CSP calls an amount higher than the CCP margin calculation, if this amount is a simple multiplier of the total CCP amount then the CSP should be able to use the CCP margin model as the basis for satisfying its simulation requirements. The addition of a simple multiplier should not result in a requirement for a new set of scenarios to be generated by the CSP. In such circumstances, the information provided under Art 38 in relation to additional CSP margin requirements will provide sufficient information to the client for them to better understand and compare the amounts that could be imposed by the CSP in addition to CCP margin and the possible drivers behind these.

For clients in a net omnibus account, CSPs will collect margin from each client (gross margin requirement) as they guarantee the performance of the client to the CCP. This may differ to

the net margin requirement called from the CSP by the CCP. Provided that the clients' individual margin called is based on the CCP's margin model, or if the CSP applies only a simple multiplier (see above), there should be no need for an additional set of scenarios or further simulation beyond those already required by the CCP.

We understand the rationale for CSPs to inform all their clients/counterparties on the margin add-ons which could be requested to address any market stress situations. As mentioned above, we believe that CSPs could provide worked hypothetical examples of how these factors could apply in practice by providing examples of 'If X occurs, then Y multiplier may be applied'. Where a client is actually charged a client-specific add-on, then we expect that a CSP can provide further information to a client about how that multiplier was arrived at, upon request.

Extending the requirement for information on how additional margin is sized to all clients seems disproportionate and without purpose, for the following reasons: (i) such information would be not meaningful for clients/counterparties that do not pay additional margin and (ii) such a constraint would represent an unjustified administrative burden imposed on CSPs which would be contradictory to the EU objectives of rules' simplification and EU markets and actors' competitiveness.

Where the CSP does not use the CCP margin model as the basis for the margin amounts called for cleared products from its clients then we agree that, in this circumstance, a separate and additional set of scenarios would be appropriate and the drafting of Art9.4(a) and 9.4(b) is adequate. However, if these models calculate margin as a net amount across CCPs, it does not make sense to link the model output to margin that would have been called by CCPs. If the CSP model does not use add-ons, there should also be no need to share add-ons.

ESMA should avoid duplication of effort and costs and allow clients direct access to CCP simulators

For those CSPs that merely pass on CCP margin or simply apply an add-on, such as a multiplier, to CCP margin, the most efficient way to provide simulation results to clients would be to allow them access to the CCP simulator, directly by each CCP, supplemented with CSP disclosures which outline the different factors which CSPs contemplate in determining whether incremental margin to CCP minimums is required. If the CCP does not offer a simulator to clients directly, the API used for the simulator could be passed through the CSP website.

This would cover the simulation requirement for clients that pay CCP margin, including clients in a net omnibus account that are charged by the CSP margin in line with the CCP margin model. Such a solution would also cover clients who are paying additional margin in form of a multiplier. Arguably this would be also sufficient for clients of CSPs that calculate margin across all cleared and uncleared portfolios with a floor of CCP margin requirements.

The proposed RTS goes significantly above global guidance

For further context, proposal 9 of the BCBS-CPMI-IOSCO final report Transparency and responsiveness of initial margin in centrally cleared markets – review and policy proposals (the "Final Report") states that CMs should facilitate their clients' understanding of their margin requirements "*by providing access to CMs' own margin simulators or through private disclosures on the margin requirements under different scenarios (eg if add-ons are charged to clients based on their individual risk profile), as appropriate. Where additional margin is required from an individual client by a CM based on its individual risk profile (such as a credit risk add-on), that CM should be able to provide sufficient transparency on how the triggers or thresholds for their use are set.*" Offering transparency on how triggers or thresholds are set is far below requiring tools to simulate the size of multipliers or add-ons. For this reason, we believe that CSP disclosures to a client are a far more proportionate solution and in line with the BCBS IOSCO recommendations.

The level 1 text distinguishes between "Simulation tool" and "Simulation" for a reason

We appreciate ESMA's recognition of the distinction in the level 1 text between the requirement for CCPs to provide a "simulation tool" and for CSPs to provide "simulations." However, ESMA has not clarified how a "*simulation*" is differentiated from a "*simulation tool*."

To avoid over-interpreting the requirements under Article 38(8), we believe it is essential to draw a clear operational and conceptual distinction between a "*simulation*" and a "*simulation tool*." A simulation tool, as required for CCPs under Article 38(6), implies an interactive, client-facing platform that allows real-time or near real-time scenario testing, user inputs, and dynamic recalculations. This level of functionality is feasible for CCPs, who own and operate the underlying margin models, but it is disproportionate and impractical for CSPs.

By contrast, a "simulation" should be understood as a non-interactive disclosure, which may consist of:

- An example or indicative output, for instance based on representative portfolios.
- Descriptive statements like "If this happens, that might happen" / "if your credit quality reduced by one notch, we may add 10% points to your addon multiplier"
- A batch-run calculation or illustrative margin range
- High-level information on parameters used in the CSP's own internal add-on or multiplier

Provision of client-specific scenarios could make provision of clearing services less attractive

Article 9 subparagraph 1 requires each CSP to provide clients with simulations of "*three market stress scenarios and two scenarios related to the individual risk of the client.*"

As referenced above we do believe simulations by CSPs are not required in most cases, as most clients can rely on CCP simulators. There is also another reason why CSPs will not be able to provide simulations of client specific scenarios if these are meant to be similar to the output of CCP simulators:

As mentioned in our response to question 4, the CSP is dependent on the CCP simulator output across each CCP it holds a membership of. This means that the three market stress scenarios would have to be the same as the ones produced by the CCP, or a subset thereof. These CCPs would also have to use the same scenarios to make any aggregation meaningful.

It is not clear what ESMA plans to achieve with the requirement to produce two client specific scenarios. These cannot be client-specific market stress scenarios, as the CSP can only rely on the scenarios available in the CCP simulator. If the objective is to produce scenarios related to the client credit quality, or other drivers of additional margin, we note that for many CSPs, the majority of clients only pay CCP margin, and therefore would not have to pay additional margin that depends on their credit quality or other factors.

Such a simulation would only make sense for clients that pay additional margin. Even then, anything beyond explanatory statements like "if your credit quality reduced by one notch, we will add 10% points to your add-on multiplier" (on top of the disclosure of general factors to all clients) would be very costly, burdensome and would fail to recognise the complexity and dynamic nature of client portfolios and CCP margin levels.

With large CSPs typically having hundreds or thousands of clients, providing individually tailored scenarios and simulations for all of them is simply not feasible in practice, and it would increase the cost of providing clearing services considerably. This is particularly concerning given that clearing businesses in the EU are already operating in a highly commoditised, price-sensitive, low return environment and therefore we are concerned that ESMA's proposals could make providing clearing services in the EU increasingly less attractive. It is essential that ESMA take into account the practical realities and the magnitude of the work required to deliver what is being proposed cannot be ignored. Without such recognition, there is a real risk that the rules will impose disproportionate burdens while failing to achieve their intended objectives.

Given these concerns but with a view to improving clients' understanding of how their margin may change and enhancing comparability, we believe a disclosure-based solution whereby CSPs would provide worked non-binding examples of how an event (e.g. decline in the market) may impact margin would strike the right balance.

Providing a bespoke numerical simulation for the add-ons/multipliers would be significantly more complex than the simulators provided by CCPs, because client add-ons/multipliers can

be driven by a lot of different factors that are unique to the individual client (and change frequently), for instance:

- Credit quality of the client
- Composition and riskiness of the client portfolio
- Leverage of the client
- CCP margin
- Products cleared
- Concentration of client position and liquidity of the contract (e.g. open interest, ADTV)
- Intended trading strategy
- The client's internal risk control systems

It would be extremely complex or even impossible to simulate each of these factors consistently with the scenarios used in the CCP simulator or conversely, if the simulation is made too simplistic it would lead to potentially inaccurate simulations and not be reflective of an individual client's circumstances. As a result, we believe it is important that the approach to the simulation rules are designed to be sufficiently flexible (i.e. met through disclosures) and does not seek to constrain CSPs' ability to apply additional margin as necessary to manage risk.

We would finally note that the spirit and intent of Article 38 was to draw a clear distinction between the obligations of CCPs and those of CSPs, with the latter subject to less stringent requirements. This differentiation reflects the different roles these entities play in the clearing ecosystem. However, the draft RTS provisions on client specific scenarios clearly demonstrate that ESMA has not followed this approach. By effectively imposing CCP-level obligations on CSPs, the RTS risk contradicting the Level 1 framework – which merely states "*under different scenarios"* - and creating requirements that go beyond what was originally envisaged by the legislator.

The geographical scope needs to be clarified, especially for CSP requirements

The geographical applicability of these rules is ambiguous. Terms like CCP and CSP are broad and not confined to EU entities. However, EMIR typically does not have extraterritorial effects unless explicitly stated. We seek clarity on which CSPs the draft Regulatory Technical Standards (RTS) will apply to. Title IV of EMIR, which outlines the requirements for Authorized CCPs and includes Article 38, discusses CCPs in general but applies only to Authorized CCPs and Tier-2 CCPs. The scope concerning CCPs might be clarified through Articles 14 and 25, which differentiate between authorized and recognized CCPs and outline the distinct requirements for each. However, there are no equivalent mechanisms to clarify how these rules apply to clearing members or clients providing clearing services.

ESMA should clarify the geographical scope of the rules for CSP requirements. A majority of our members believe that the rules should cover only the provision of client clearing services to EU clients clearing at EU CCPs. A minority believes that the rules should cover only the provision of client clearing services for clients clearing at EU CCPs.

We propose to align the geographical scope in relation to the CCPs for which CSPs are required to provide or convey transparency with the geographical scope of the fee disclosure requirements, which are limited to EU CCPs.

Margin calculated across cleared and uncleared exposures and across asset classes should not be in scope of article 38 transparency

As outlined in our response to question 5, many CSPs—such as Prime Brokerage businesses—employ models that generate a single margin requirement encompassing both cleared and uncleared exposures. It remains unclear how simulation requirements would apply to these CSPs, given that their models do not exclusively address cleared exposures. In particular, if a CSP's model utilises the CCP margin as a minimum threshold, it could be contended that the model addresses only the uncleared exposures. Often, the agreement between client and CSP allow the CSP to withdraw the use of such models, and clients therefore would have to consider CCP margin requirements for their liquidity planning anyway. Regardless, imposing extensive simulation obligations on models that do not solely cover cleared exposures may increase the operational costs of providing such models to end users. This could lead to such models either to become very expensive to CSP and client, or not even offered anymore.

Many portfolio margin models are not additive: aggregation of simulation results should not cause the calculation of meaningless amounts of additional margin

Paragraph 43 states that "*ESMA understands the additional margins required by the CSPs as the difference between the total margins required by the CSPs and the margins required by the CCP.*"

This might be useful information if the CSP charges clients an add-on, for instance in the form of a multiplier. Calculating the difference between the total margins required by the CSPs and the margins required by the CCP is however not very meaningful for the client if the total margin required by the CSP is calculated with a portfolio-based model, that might even include other exposures than cleared transactions.

Paragraph 22 in the consultation suggests that "*the output amount referring to the initial margin for the existing positions should be distinguished from the amount for new transactions.*" We note that in many portfolio-based CCP models, there is no explicit margin amount for new transactions, but only a new portfolios result. Depending on the portfolio, the total margin including existing and new transactions might even be lower than the

margin for the existing transactions. While the CCP can provide the difference between the margin for existing transactions and the margin for the total portfolio, this difference would not be the same as the margin for only the new transactions.

Margin financing should be excluded from the scope of article 38 transparency

It is our position that margin financing constitutes a distinct service from clearing activities. Although margin financing may lead to a reduction in margin requirements for the client, such transactions are typically executed on a case-by-case basis and do not provide clients with an inherent right to reduced margin. Accordingly, it would not be appropriate or necessary to incorporate these transactions into any simulation outcomes.

It should be clarified that the requirements apply to IM only

Based on context, such as the reference to initial margin in article 9(1)(a), we understand that the requirement for CSPs to provide simulations applies only to initial margin. However, the draft RTS refers generally to "margin simulations." The final text should clarify that the simulation requirement is limited to the initial margin.

The proposed changes cannot be put into practice without an implementation period

EMIR 3.0 and this RTS will lead to significant changes both at CCPs and CSPs, which will take time to be implemented. Also, for CSPs to fulfil their obligations, they will be dependent on correct and timely implementation by CCPs and can start their work only after it becomes clear what CCPs will provide. We would urge ESMA to allow suitable implementation periods for both CCPs and CSPs. If ESMA believes level 1 does not cover an implementation period, it should consider a forbearance statement to ensure efficient resource deployment across market participants. Article 38 requires significant efforts from CCPs and CSPs, which cannot realistically be completed in 20 days. We believe an appropriate implementation period would be 18 months.

Disclaimer

This paper covers the positions of our members on the buy-side and sell-side. The paper does not reflect the views of many CCPs, and many of the CCPs are in disagreement with the views.

Annex 1: ISDA's proposed amendments to the draft RTS – to be read in conjunction with the ISDA response

COMMISSION DELEGATED REGULATION (EU) No …/..

supplementing Regulation (EU) No 648/2012 of the European Parliament and of the Council with regard to regulatory technical standards specifying the requirements on margin transparency and margin simulation tool by CCPs and margin transparency and margin simulations by clearing service providers

of [ ]

(text with EEA relevance)

THE EUROPEAN COMMISSION,

Having regard to the Treaty on the Functioning of the European Union,

Having regard to Regulation (EU) No 648/2012 of the European Parliament and of the Council of 4 July 2012 on OTC derivatives, central counterparties and trade repositories[3], in particular Article 38(10), third subparagraph thereof,

Whereas:

[We have not marked up recitals, as this would duplicate our comments in the response letter]

HAS ADOPTED THIS REGULATION:

CHAPTER I

INFORMATION TO BE PROVIDED BY A CCP TO ITS CLEARING MEMBERS

Article 1

Initial margin model design and functioning

A CCP shall provide its clearing members and clients of its clearing members that clear at the CCP with information on the design and the functioning of its initial margin model, in a way that

enables the clearing members and clients of its clearing members that clear at the CCP to obtain an in-depth understanding of how the margin model works. This information shall cover all the elements of the initial margin model, including the following:

(a) the risk that each initial margin model element covers;
(b) the type of model used for the core margin;
(c) the methodology for the calculation of the margins, such as the logical steps, and the mathematical and statistical specifications;
(d) the model parameters, such as the confidence interval, the lookback periods, and the time horizon for the lookback period, with a description of their respective functions;
(e) the pricing and market data sources used by the CCP and the frequency of the updates;
(f) the operational arrangements, such as the deadlines for meeting initial margin calls, collateral posting cut-off times, collateral collection schedule; and
(g) the governance procedures related to the review of the initial margin model of the CCP, the involvement of clearing members in the governance process and the applicable notice period.

Article 2

Key assumptions and limitations of the initial margin model

1. A CCP shall provide its clearing members and clients of its clearing members that clear at the CCP with a list of the key assumptions and limitations of the initial margin model, including a description of the events that could lead to a breach of the assumptions, and qualitative and quantitative information on the potential impact on margin requirements.

2. A CCP shall provide its clearing members and clients of its clearing members that clear at the CCP with qualitative and quantitative information on the performance of its initial margin model and on the behaviour of that model during stressed market conditions. This information shall include the following:

(a) the backtesting results, as provided in accordance with Article 49(5) of the Commission Delegated Regulation 153/2013; and

(b) relevant sensitivity testing results, allowing the clearing members to understand how the initial margin model reacts to the evolution of parameters or assumptions.

3. A CCP shall also provide its clearing members and clients of its clearing members that clear at the CCP with information on:

(a) the processes to monitor and revise the level of its margins to reflect the current market conditions;

(b) the conditions under which the assumptions of the model may no longer apply, and which would result in an override of the initial margin model, including during a market stress event; and

(c) how extraordinary margins are calculated and called in accordance with Article 56 of the Commission Delegated Regulation 153/2013.

Article 3

Model documentation

A CCP shall provide its clearing members and clients of its clearing members that clear at the CCP with all the documents covering the information referred to in Article 1, Article 2 and Article 5(3) of this Regulation. These documents shall be written in a clear and comprehensive manner and in a way that enables the clearing member to obtain an in-depth understanding of how the margin model works.

CHAPTER II

CCP SIMULATION TOOL

Article 4

Output of the simulation tool

1. The output of the simulation tool provided by a CCP to its clearing members and clients of its clearing members that clear at the CCP shall be composed of the core margin and each of the margin add-ons that are related to the portfolio where the new transactions will be margined. It shall distinguish between the amounts for the core margin and for each of the add-ons, to the extent possible~~, and clearly list the type of risks covered by each amount~~.

2. The output of the simulation tool shall be available for additional transactions in existing or hypothetical portfolios of the clearing member and clients of its clearing members that clear at the CCP using the tool. The output of the simulation tool shall distinguish between the initial margin requirement amount for the existing transactions already cleared by the clearing member and the additional initial margin amount required by the CCP upon clearing new transactions.

Article 5

Simulation tool scenarios

1. The simulation tool provided by a CCP shall allow its clearing members and clients of its clearing members that clear at the CCP to determine their initial margin requirements for at least each of the following scenarios:

(a) the current market conditions based on the inputs used by the initial margin model for the most recent initial margin call to the clearing member using the tool;

(b) ~~two hypothetical and~~ three historical market stress scenarios ~~identified by~~that affected the whole market (the 2007-2008 great financial crisis, the 2020 COVID-19 shock, the 2022 commodities crisis) and one historical scenario that caused the largest stress at the CCP if not included in the three scenarios above, using the framework set out in Chapter VII of the

Commission Delegated Regulation 153/2013.

The scenarios referred to in point (b) of the first subparagraph shall meet the requirements set out in the Annex.

2. The CCP shall consider identifying and including, in its simulation tool, additional market stress scenarios, taking into account the CCP's size, complexity, risk management practices, membership structure and the characteristics of its product offering.

3. The CCP shall provide to its clearing members and clients of its clearing members that clear at the CCP a clear description of the scenarios set out in paragraphs 1 and 2 of this Article.

Article 6

Access to the simulation tool

A CCP shall provide access to its simulation tool to its clearing members and ~~to~~ clients ~~providing~~of its clearing ~~services~~members that clear at the CCP, subject to appropriate confidentiality requirements.

CHAPTER III

INFORMATION TO BE PROVIDED BY CLEARING MEMBERS AND CLIENTS PROVIDING CLIENT CLEARING SERVICES

Article 7

Geographical scope

This chapter applies to clearing members and clients which provide clearing services to clients in the Union, whether those services are provided directly or indirectly, where those services are provided in relation to CCP authorised under Article 14 of Regulation (EU) No 648/2012.

Provisions in this chapter do not apply to margin financing activities.

Article 7a

CCP initial margin model

Clearing members providing clearing services and clients providing clearing services ('clearing service providers') shall make available to their clients the information and documentation referred to in Article 3 of this Regulation for CCPs authorized according to article 14 of EMIR unless the CCPs have made the information public or the CCP provides the information to clients directly.

Article 8

Margins required by clearing service providers

1. A clearing service provider shall inform its clients on how the initial margins called by the CCP are passed through to its clients. Where the amount of initial margins required by the clearing service provider from its client deviates from the amount required by the CCP, the clearing service provider shall provide information with regard to the rationale for, and magnitude of, those deviations to the clients subject to such deviations.

2. Where a clearing service provider uses the margin model of the CCP, and requires additional margins to the margins required by the CCP, the clearing service provider shall provide its clients with information on:

(a) the risk that each type of additional margin covers, and how it is calculated;

~~(b)~~ the ~~key indicators on~~factors that affect the ~~performance of~~ additional ~~margin requirements during normal and stressed market conditions;~~

~~(c)~~(b) margins required from the client, the operational arrangements for the collection of the additional margin requirements, including the deadlines for meeting margin calls, collateral posting cut-off times, collateral collection schedule, thresholds which might trigger margin calls where applicable, limits to which the client may submit transactions for clearing, and for the restitution of excess collateral; and

~~(d)~~(c) the procedures to review the ~~methodology and the~~ calculation of the additional margin required by the clearing service provider, and the applicable notice period.

3. Where a clearing service provider uses a different margin model than the one used by the CCP and this model is used exclusively for cleared exposures, the clearing service provider shall provide its clients with information on the key elements of the design and limitations of its initial margin model, including the following:

(a) the risk that each initial margin model element covers, and how it is calculated;
(b) the type of model used for the core margin;
(c) the model parameters, such as the confidence interval, the lookback periods, and the time horizon for the lookback period, with a description of their respective functions;
(d) the pricing and external market data sources used and the frequency of the updates;
(e) the operational arrangements for the collection of the margins, including the deadlines for meeting initial margin calls, collateral posting cut-off times, collateral collection schedule, thresholds which might trigger margin calls, limits to which the client may submit transactions for clearing, and for the restitution of excess collateral; and
(f) the procedures to review the ~~methodology and the~~ calculation of the additional margins, and the applicable notice period.

Article 9

Margin simulations

1. ~~A~~Where a clearing service provider: (i) uses CCP initial margin calculations as the basis for the margins collected from its clients, including for clients exposures in a net omnibus account or (ii) where the clearing service provider adjusts the CCP initial margin calculation by a simple multiplier, or (iii) if the margin called by the clearing service provide is floored at the CCP margin, or (iv) if the clearing service provider's margin model spans cleared and uncleared exposures, the clearing service provider shall ensure that its clients are informed of, and provided with clear direction to, the initial margin simulation tool made available by the CCP.
Where a clearing service provider uses the margin model of the CCP, and requires additional margins to the margins required by the CCP, the clearing service provide shall inform the clients with descriptive statements that explain what factors affect additional margin requirements and how these may change under different conditions. This could include worked hypothetical examples of how these factors could apply in practice by providing examples of 'If X occurs, then Y multiplier may be applied', or historical illustrative examples.]

Otherwise, where a clearing service provider does not use the CCP margin calculation as the basis for the margins collected from its clients, the clearing service provider shall provide its clients with margin simulations for at least each of the following scenarios:

(a) the current market conditions based on the inputs used by the initial margin model for the most recent initial margin call; and

(b) three market stress scenarios and two scenarios related to the individual risk of the client.

2. The clearing service provider shall consider identifying and including additional scenarios by taking into account its size, complexity, risk management practices, client structure and characteristics of its service offering.

3. Where a clearing service provider uses ~~the same~~a different margin model ~~as the CCPs, and requires additional margins to the margins required~~than the one used by the CCPs, and if the margin called by the clearing service provider is not floored at the CCP margin, and if the clearing service provider's margin model does **not** span cleared and uncleared exposures, the output of the margin simulations shall~~,~~:

(a) unless the client clearing service provider calculates margin requirements as one amount covering multiple CCPs, for each CCP, clearly distinguish the ~~initial margin~~ amount required by the CCP from ~~any additional margins amounts~~the amount required by the clearing service provider related to the portfolio where the transactions are being margined; and

~~(a)~~(b) clearly distinguish between the core margin amount and amounts for each of the margin add- ons of the model used by the clearing service provider related to the portfolio where the transactions are being margined. ~~The clearing service provider shall also provide a breakdown per type of additional margin required.~~

~~3. Where a clearing service provider uses a different margin model than the one used by the CCPs, the output of the margin simulations shall:~~

~~(a) for each CCP, clearly distinguish the amount required by the CCP from the amount required by the clearing service provider related to the portfolio where the transactions are being margined; and~~

~~(b) clearly distinguish between the core margin amount and amounts for each of the margin add- ons of the model used by the clearing service provider related to the portfolio where the transactions are being margined.~~

CHAPTER IV
FINAL PROVISIONS

Article 10

Entry into force

This Regulation shall enter into force on the ~~[XXth] day~~18 months following that of its publication in the Official Journal of the European Union.

This Regulation shall be binding in its entirety and directly applicable in all Member States. Done at Brussels, DD MM YYYY.

For the Commission The President

Signature

ANNEX

Requirements for the market stress scenarios for the CCP margin simulation tool

The CCP simulation tool scenarios referred to in Article 5(1), first subparagraph point (b), of this

Regulation, shall meet all of the following requirements:

(a) They shall be built in a way that impacts initial margin models as follows:

(i) They shall result in changes to initial margin amounts, due to shifts in market conditions;

(ii) They shall include appropriate periods of stress impacting market volatility and correlations of risk factors captured by initial margin models;

(iii) They shall take path dependency of the IM model into account and, if the margin model is sensitive to the development of the market during the stressed period, use market moved day-by-day for the stress period.

~~(iii)~~(iv) They shall include a change of price levels of the instruments cleared by the CCP, which are used as inputs for calculating initial margins; and

~~(iv)~~(v) They may include impacts on other risks and margin components, such as due to increased liquidation costs or reduced portfolio margining.

(b) As regards historical scenarios, they shall include key past stress events that are the most impactful for the portfolios of the clearing members; and

(c) As regards hypothetical scenarios, they shall be built in a way that they stress the clearing members' liquidity needs.

Annex 2: About ISDA

Since 1985, ISDA has worked to make the global derivatives markets safer and more efficient. Today, ISDA has over 1,000 member institutions from 76 countries. These members comprise a broad range of derivatives market participants, including corporations, investment managers, government and supranational entities, insurance companies, energy and commodities firms, and international and regional banks. In addition to market participants, members also include key components of the derivatives market infrastructure, such as exchanges, intermediaries, clearing houses and repositories, as well as law firms, accounting firms and other service providers. Information about ISDA and its activities is available on the Association's website: www.isda.org. Follow us on LinkedIn and YouTube.