ISDA response to the CPMI-IOSCO consultation on updated guidance and public disclosures to implement initial margin proposals

Executive Summary

ISDA and its members have long advocated for greater transparency and anti-procyclicality in the initial margin practices of central counterparties (CCPs). The periods of acute market stress in recent years, most notably the COVID-19 shock in March 2020 and the 2022 UK gilt crisis, demonstrated how sharply and unpredictably margin requirements can increase, leaving clearing members and their clients with limited ability to anticipate, and plan for, the resulting liquidity demands. Against this backdrop, we welcome the work undertaken by CPMI-IOSCO to incorporate the proposals from the final BCBS-CPMI-IOSCO report, Transparency and responsiveness of initial margin in centrally cleared markets – review and policy proposals (the Final Report) into the CPMI-IOSCO further resilience guidance (the Resilience Guidance) and the Public quantitative disclosure standards for central counterparties (the PQD). We regard this as an important first step towards addressing the industry's longstanding advocacy for more transparent and predictable margining, and we offer the comments below in a constructive spirit, with the aim of ensuring that the final measures deliver meaningful improvements in practice.

Our main comments and recommendations are summarised below:

- The changes to the Resilience Guidance and PQD are high-level: CCPs should be required to take the Final Report into account, and CPMI-IOSCO and the BCBS should build in implementation monitoring.
- On margin simulators, CPMI-IOSCO should retain the Final Report's language; and because IM can be path-dependent at many CCPs, simulators must replay stress events day by day, as one-step scenarios materially understate margin increases.
- Greater standardisation of CCP outputs and tools, and greater transparency around stress scenarios, would help users.
- A margin simulator is not a substitute for the information needed to support genuine replicability of the margin model (Proposal 3).
- We welcome that all data points in the Final Report have been integrated into the PQD, and support the backward-looking measure (Proposal 6), but its one-year window makes it of little use until after the next crisis. CCPs should report responsiveness over pre-defined historical stress periods in addition to the 1-year observation period.

This response 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.

General Comments

While we have specific comments regarding the manner in which the proposals from the Final Report have been incorporated into the Resilience Guidance and the PQD, we would like to begin by offering some general observations.

We recognise that these proposed amendments "*are not intended to create additional standards for CCPs beyond those set out in the Principles for Financial Market Infrastructures (PFMI); rather, they offer clarity on acceptable approaches to complying with the PFMI without prescribing the only method for achieving observance.*" Nonetheless, we consider the changes to the Resilience Guidance and the PQD to be quite high-level. Annex 1 of the Resilience Guidance presents the actual proposals contained in the Final Report but does not capture many of the further considerations discussed therein. Therefore, we suggest that CCPs be required to take the Final Report into consideration when implementing this supplementary guidance. This recommendation could be reflected in paragraph 1.1.7.

We remain aware that this consultation addresses the implementation of the Final Report within the Resilience Guidance and the PQD, and do not intend to reiterate comments previously submitted during the prior consultation related to the Final Report.

We would also encourage CPMI-IOSCO, together with the BCBS, to make implementation monitoring an integral part of the process. A structured monitoring exercise at the standard-setting level would help to ensure that the guidance is applied consistently across jurisdictions and would encourage national authorities to engage actively in giving effect to these proposals.

Changes to the Resilience Guidance

(We organise the response by the proposal numbering in the Final Report)

Proposals 1 and 2: Margin simulators

The revised Resilience Guidance introduces less stringent language compared to previous proposals. Specifically, the updated recommendations suggest that CCPs "*consider the following enhancements to increase transparency: − Making margin simulation tools available to all clearing members…*" rather than stating, "*Margin simulation tools should be made available by all central counterparties (CCPs) to all clearing members*," as outlined in the Final Report.

Margin simulators that calculate margin levels under stress ("What would happen to initial margin for my portfolio if COVID happened again?") could be a key input in firms' liquidity planning, especially for the buy-side. Simulator tools could also be used to compare CCP margin requirement levels. We are concerned that the watered-down language would not provide suitable margin transparency to users of all CCPs and could lead to regulatory fragmentation and unlevel playing fields between CCPs. We propose that CPMI-IOSCO keeps the language from the Final Report.

We understand that CPMI-IOSCO wanted to adapt the proposals from the Final Report to the general environment of the PFMI and the Resilience Guidance. While we appreciate that the PFMI do not include the requirement for simulators, we still believe the guidance should set out CPMI-IOSCO's expectations more clearly. This is especially important because guidance is always less binding than the underlying principles: if the Resilience Guidance, whose 2017 content has not yet been fully implemented by all CCPs, does not include clear expectations, the likelihood that a key tool for liquidity preparedness becomes widely available will be low.

While we recognise that the wording otherwise is in line with the Final Report, the margin simulators are required to provide functionality for the "*calculation of margin requirements for a number of the CCP's stress test scenarios*". It would be most efficient if CCPs could use stress scenarios that they already use for default fund sizing and liquidity stress testing, but we note that the response function of IM is path-dependent and these scenarios may need to be upgraded to provide day-by-day market moves during the stress event. Most CCP stress scenarios shift directly from normal conditions to stressed market conditions, which will yield inaccurate results when using VaR or related models. Providing simulators that can project future margin requirements under stress is not a trivial task, and it would be regrettable if CCPs were to build simulators whose results would not provide much value. We also believe that there could be synergies between replaying stress scenarios over several days and the functionality that CCPs have to build for the backward-looking tool in Proposal 6. A more detailed description can be found in Annex 1.

We would also encourage CCPs to consider a degree of standardisation in the outputs and tools they make available. Greater standardisation across CCPs would make it easier for clearing members and their clients to digest and compare this information, even where such standardisation is not specifically required by the guidance.

In 2025, we welcomed that the Final Report requires CCPs to produce "*in addition to baseline (or "core") initial margin, the incorporation of the CCP's main add-on charges that are systematically required across CMs.*" This information will be helpful in allocating these add-ons to clients better.

We would further argue for greater transparency around the stress scenarios used by CCPs, as these scenarios form the basis for stress margin add-ons at several CCPs. Such transparency may also help to support the broader case for greater transparency around the default fund, while we recognise that the default fund was not a core part of the Final Report.

Proposal 3: Qualitative disclosure of margin model

The proposals in the Resilience Guidance follow the wording in the Final Report.

2.2.23 of the Resilience Guidance asks CCPs to "*provide sufficient information, …, to support the replicability of margin requirements*", "*such that participants can understand how the*

margin model behaves". This paragraph will now be materially changed by adding "*One effective way to provide information to support replicability is the provision of a margin simulator by CCPs*."

Rather than providing enough information to replicate a model and enable genuine understanding of it, a margin simulator simply reproduces the model's output. Replicating a value doesn't imply understanding of how it is produced and how it moves under what conditions. Although simulators, as suggested in the Final Report, are very useful for liquidity management, they do not facilitate comprehension of the model itself. We believe that adding this sentence diminishes the quality of the existing guidance, even if compliance with that guidance has so far been incomplete. We therefore propose that the proposed addition instead read: "*While otherwise very helpful for liquidity management (see above), the provision of a margin simulator by CCPs is not a suitable replacement for providing information to support replicability.*"

Proposal 4: Qualitative disclosure of anti-procyclicality (APC) tools

The proposals in the Resilience Guidance follow the wording in the Final Report.

Proposal 7: Analytical framework

The proposals in the Resilience Guidance follow the Final Report's wording. The Report requires "*the framework and parameter choices communicated to relevant authorities,*" which is absent from the updated Resilience Guidance. However, we assume CCP supervisors can still request this information if needed.

While this is outside of the Final Report, we would urge CCPs to provide as much transparency to their members and clients as possible.

Proposal 8: Discretion

Like Proposal 7, the Resilience Guidance proposals use the language found in the Final Report; however, they do not address sharing information with relevant authorities.

Public Quantitative Disclosures

Proposal 5: Changes to PQD

We welcome that all the data points in Proposal 5 of the Final Report will be included in the PQD.

Proposal 6: Backward-looking measure

We support this proposal, as the backward-looking responsiveness measure could be a very powerful indicator of how procyclical a CCP's margin model is. Knowing how much margin would have increased in the past can be a useful input into a firm's liquidity planning.

However, as currently specified, the observation window, the time period over which the largest margin move is reported, is only one year long. This means that market participants will for now have only observations covering fairly benign markets without stress-level volatility in most asset classes. Consequently, elevated procyclicality will not have been prominently observed. Meaningful information about past large margin moves that would be helpful to market participants' liquidity planning, complementing margin simulators, will initially not be available. While CCPs have to provide this measurement, the data will not be useful to prepare for the next crisis. Only after the next crisis with increased procyclicality will this measure be useful for market participants.

In 2025, we proposed to either extend the observation period to 18 years to include the Global Financial Crisis (GFC), or to ask CCPs to backfill 18 years of yearly observation periods. Both proposals would have been burdensome for CCPs. To reduce the burden on CCPs, we propose that CCPs could provide details of responsiveness during pre-defined stress periods relevant for the specific asset class, such as the GFC, COVID dash-for-cash, 2022 commodities crisis, 2025 Tariff Day etc.

We are mindful that there is no appetite to change the outcome in the Final Report, but it would be regrettable if CCPs had to spend the effort to provide a measure that will only be useful after the next crisis. A potential solution could be to ask CCPs to consider providing an initial set of observations back to the Global Financial Crisis. More information can be found in Annex 2.

Annex 1: At many CCPs, IM is path-dependent and cannot be simulated with one-step scenarios

Using the CCP's stress scenarios that are used for default fund sizing will 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 require scenarios that "replay" day-by-day how the stress event of a scenario developed and use 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 stress scenario 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 rather the market moves day by day between these two dates. Likewise, instead of simulating a one-day shock of 97bp of 10Y gilt 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 time series depends on the margin model and the APC tools utilised by the CCP. CCPs need to use a time series that is sufficient to produce the largest IM that would have been called in the stress scenario in question.

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 Global Financial Crisis or the COVID-19 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.

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.

Building simulators that can reliably project future margin requirements under stress is not a trivial undertaking. It requires CCPs to construct and maintain multi-step stress scenarios, to feed the resulting day-by-day time series into their margin models, and to validate the outputs. Given this effort, it would be regrettable if CCPs were to build simulators that, by relying on one-step scenarios, produced results of little practical value to clearing members and their clients. We therefore encourage CCPs to invest in the multi-step capability described above from the outset, so that the resources devoted to building simulators translate into genuinely useful liquidity-management tools.

We also note that there may be significant synergies between the multi-step replay of stress scenarios required for meaningful margin simulators and the functionality CCPs will need to build for the backward-looking responsiveness measure under Proposal 6. Both rely on applying the current margin model to historical, day-by-day market moves over a defined stress period. CCPs that develop the infrastructure to replay historical stress events for the backward-looking measure should be able to reuse much of that capability for forward-looking simulation, and vice versa. Recognising and exploiting these synergies could reduce the overall implementation burden while improving the quality of both tools.

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

Annex 2: Issue with Proposal 6

Proposal 6 states:

"*CCPs should compute and disclose standardised measures of margin responsiveness, as described in the explanatory text. The disclosure should be included in the PQD framework for the most relevant contracts per clearing service (see proposal 5). CCPs should make available to regulators, upon request, the computed daily time series of the standardised measures for monitoring purposes.*"

As the Report explains, "*Measures related to the size (and speed) of margin model reactions during actual periods of unexpected volatility change can be a good indicator of the upper tail of liquidity demands partially due to margin calls during periods of stress*." While we are aware of the limitations, especially that future crises can and will be different from past crises, information about large margin moves in the past will be a helpful data point that can feed into the liquidity planning of market participants.

We also welcome that the proposed implementation will include the largest one-day margin move and the largest 20-day margin move. The largest one-day move can provide helpful input into daily liquidity and cash management, whereas the 20-day measure gives an indication of how much more liquidity and funding would be required over a whole crisis.

These numbers become only meaningful, however, if the time period over which the largest moves are observed (called "observation period" in the Report) is long enough to include past occurrences where margins increase significantly, including the most stressed events, which would at minimum be the COVID dash-for-cash, but could also include the GFC in 2007/2008 and the 2022 commodities crisis.

The Report requires CCPs to calculate and disclose this metric with an observation period of one year, and with an observation period of three months. From the time this measure comes into force and is calculated by CCPs for the first time, market participants will only see the margin over the previous 12 months. According to the Report, "Over time, this new disclosure of margin responsiveness will establish a historical standardised time series." However, while this historical standardised data series is being established, the collected data will be virtually useless for market participants, as the data series will (hopefully) include a lot of observations from benign markets. Until after the next crisis with significantly increased margin requirements, market participants will not have a measure to prepare for such a shock. All the effort by CCPs to calculate this measure will be for naught for some time.

We initially proposed two ways this could be solved:

1. Extend the observation period to 18 years to include the GFC. As the Report restricts the backward-looking measure to only benchmark products, this should be doable for CCPs, which should have the data series anyway. This was the preferred solution for our members.

It also has the additional benefit that the measure would show how the current model would have fared during the whole time.

2. Ask CCPs to backfill 18 years of yearly observation periods. Market participants could then aggregate the data and pick the largest margin move over these observation windows to get to the measure. This solution would, however, have the downside that it would show the reaction of the model at the time, not of the current model. This would be similar for additions to the historical standardised time series: Any improvements in the model, for instance, improved anti-procyclicality tools, would not show in the backward-looking measure, as it would be with a long observation period.

To reduce the burden on CCPs, we would propose for CCPs to only also provide details of responsiveness during pre-defined historical stress periods relevant for the specific asset class, such as the GFC, COVID dash-for-cash, 2022 commodities crisis, 2025 Tariff Day etc.