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20 July 2023

Chief Risk Officer,
The Clearing Corporation of India Ltd.,
CCIL Bhavan,
S.K. Bole Road,
Dadar (West),
Mumbai - 400 028

By email: rmd@ccilindia.co.in

Dear Sir,

Consultation Paper: Proposal to Introduce Stress Loss Margins (SLM)

Introduction

The International Swaps and Derivatives Association, Inc. ("ISDA")[1] welcomes the opportunity to respond to the Clearing Corporation of India Limited ("CCIL") consultation paper on proposed introduction of Stress Loss Margins ("SLM").

ISDA and our members appreciate the continued efforts by CCIL in improving its risk management measures in line with international standards and encourage CCIL to continue its engagement with the industry when formulating such measures.

General comments

ISDA members are supportive of the introduction of SLM for the derivatives segment[2] with the objective of collecting higher margins from members driving stress losses beyond a certain limit and thereby, reducing loss mutualisation among members by limiting their Default Fund ("DF") requirements. This moves CCIL more towards a defaulter pays model. ISDA members also acknowledge that this is a positive development aligning CCIL's risk management practices with that of global central counterparties ("CCPs") such as LCH and Eurex, who require Default Fund Additional Margin ("DFAM") and introduced member-specific mitigating actions respectively to reduce loss mutualisation.

[1] ISDA Since 1985, ISDA has worked to make the global derivatives markets safer and more efficient. ISDA has over 1000 member institutions from 79 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.

[2] Trades in Forex Forwards and Rupee Derivates (MIBOR OIS and MMFOR)

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ISDA would like to highlight some comments from our members which CCIL may wish to consider on suggestions to help members adapt to SLM requirements, addressing procyclicality of SLM to ensure DF adequacy, clarification on impact of parameters, resources accepted to settle SLM, and SLM in non-derivatives segment. The detailed comments section below aims to provide CCIL with more information on these comments.

Detailed comments

1. **Suggestions to help members adapt to SLM requirements**

   First, members would like to explore if these requirements could be phased for liquidity management purposes by members. This is because members raised that the introduction of SLM, could significantly increase margin requirements during sudden volatile market conditions. Based on CCIL's analysis[3] of the proposed threshold (i.e. 45% threshold level and 3 days retention period) across the derivatives segment, the average increase in margin requirements ranges from 4% to 57%, with the highest increase at 170% as a percentage of Initial Margin ("IM"). Concentration Margin and Volatility Margin could also further drive up margin requirements during volatile times. Hence, members would welcome if these requirements could be phased for liquidity management purposes.

   Additionally, as the Applicable SLM could be substantial, members appreciate if they could be kept aware of their own position against the SLM threshold as well as the estimated size of the Applicable SLM. In this regard, members would welcome if CCIL could share SLM calculation reports, including disclosure of the threshold (i.e. the average 6-month Cover 2 stress loss before SLM) and stress scenarios with members on a regular basis to keep them informed about their latest position and stress loss. Transparency through PFMI disclosure is also welcomed. CCIL could also consider alerting members in advance before charging sizable SLM. Such information sharing and notification could help members manage their portfolio and funding more effectively and timely.

   Members would also welcome the availability of simulation tools to enable members to estimate potential SLM and DF impact of new trades or adjusted portfolios.

2. **Addressing procyclicality of SLM to ensure DF adequacy**

   According to CCIL's consultation paper, tables 2.1-2.3 indicate that CCIL would frequently call for SLM (>50% of the days backtested) and could potentially call on multiple members simultaneously. Reliance on SLM to this extent indicates that the DF is undersized.

[3] As illustrated under Table 2 of CCIL's consultation paper

As reference, LCH collects monthly DFAM on the day DF is resized. Such monthly DFAM is held until the next time the DF is resized. On intra-month basis, LCH collects daily additional margin if uncovered stress losses exceed a certain threshold of DF. CME collects full Cover 2 DF when the DF is resized and uses SLM to cover intra-month rise in uncovered stress losses. SLM is not considered when resizing DF.

Members would recommend CCIL to consider the above practices to address procyclicality and ensure adequacy of funded resources. These practices would ensure that funded resources do not decline as soon as stress losses reduce during the month. Members recommend CCIL to test the adequacy of its revised DF to ensure that it is sufficient to cover peak stresses on all days without any breaches. CCIL should also consider revising its DF sizing methodology in case of frequent breaches. Specifically, CCIL should not consider SLM when determining the DF size like CME if CCIL intends to hold SLM for 3 days. SLM should be used as an intra-month measure to ensure adequacy of default resources. Alternatively, CCIL could retain SLM until the next time the DF is resized like LCH's Monthly DFAM.

3. Clarification on impact of parameters

CCIL mentioned in its paper that through its back-testing analysis for the period August 2021 to April 2023, the highest reduction in DF level can be achieved through applying the lowest threshold level of 45% and longest retention period of 3 days.

Members would welcome further elaboration on the impact that the change to the new methodology will have on Skin In the Game calculation.

Members would also like a more detailed impact analysis on the back-testing of threshold parameters, including having illustrative examples for clarity.

Clarity on how the 3 day retention period compare with the 5 day close-out period for IM and DF sizing for the FX Forwards segment would also be appreciated.

4. Resources accepted to settle SLM

With regards to resources accepted to settle SLM, members would like to propose for CCIL to accept government bond securities as an option, for consistency with IM.

5. Consideration in introducing SLM in non-derivatives segment[4]

CCIL explained in its paper that it does not intend to implement SLM on non-derivatives segment as a reduction in stress loss on levying SLM is not certain. CCIL cited that there were two out of ten cases for the Forex Settlement segment where stress loss was not improved and one out of ten cases in the Securities and Triparty Repos segment where there was no improvement in stress loss.

[4] Trades in Outright, Market repo, Triparty repo and Forex settlement

However, members feel that in scenarios where a member has intermittent breaches of thresholds within an observation period (e.g. the last 1 or 2 weeks), a SLM should be determined in anticipation of further breaches. SLM could be determined based on peak breach or average breach within the observation period, which could be applied on a rolling basis.

Thank you for your consideration of our members' feedback. Should CCIL wish to discuss our response, please do not hesitate to contact the undersigned at speh@isda.org and bgourisse@isda.org.

Yours sincerely,

[Signed]
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